Master of Science in Finance

Masters Final Work

Project

Equity Research: Extended Stay America, Inc.

Leonardo van Niekerk Mateus

October 2021

Lisbon School of Economics & Management
Universidade de Lisboa

MASTER OF SCIENCE IN FINANCE

MASTERS FINAL WORK

PROJECT

EQUITY RESEARCH: EXTENDED STAY AMERICA, INC.

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OCTOBER 2021

Abstract

Extended Stay America is the leading company in the mid-price extended-stay segment of the accommodation industry in North America. This enterprise is formed by the "Corporation" (or "ESA") - focused on franchising and the hotel management business - and by its controlled subsidiary, ESH Hospitality (or "ESH REIT"), a Real Estate Investment Trust dedicated to hotel property management.

Both these entities had securities that were publicly traded on NASDAQ under the form of a Paired Share, composed by one share of common stock of ESA and one share of Class B common stock of ESH REIT.

On June 15th, 2021, the company was acquired in a joint venture between Blackstone and Starwood Capital, in an all-cash transaction at a price of $20.50/share. This day consequently marked the company's exit of the NASDAQ Global Market, with a closing price of $20.46.

This project began in November 2020, with the original goal of determining a price target for 2022YE and issuing an investment recommendation based on it. As the acquisition was announced in March 2021, the purpose of this report became to determine the company's intrinsic value on June 15th, 2021, and to compare it with the acquisition price. It was defined that a fair valuation would consist of an acquisition price within a 5% range of the company's intrinsic value.

The company's paired share was valued at $21.58 on its final trading day, using the WACC method in a DCF model. This valuation was complemented with two additional DCF approaches (APV and Flow-to-Equity), and a relative valuation, based on the EV and Price multiples of a group of selected peers. The output obtained implies that the acquisition price is 5.0% below intrinsic value, meaning the company was fairly valued – although at the threshold of being considered undervalued by the acquirers.

The current economic uncertainty regarding the COVID-19 pandemic can largely explain more conservative investment approaches, despite an expected gradual recovery. On the other hand, the company's business model proved to be outstandingly resilient to this downturn, and its strategic plan, along with the launch of its new premium brand, provide a solid positive outlook on the future of Extended Stay America.

JEL classification: F01; G10; G17; G30; G32; G34

Keywords: Accommodation; Blackstone; Equity Research; ESG; Extended Stay America; Franchising; Hotels; Mergers & Acquisitions; Multiples; REIT; RevPAR; Starwood Capital Group; Valuation.

Resumo

A Extended Stay America é a empresa líder no segmento médio de estadia prolongada da indústria de hospedagem na América do Norte. A empresa é composta pela "*Corporation*" (ou "ESA") – direcionada às atividades de *franchising* e de gestão hoteleira - e pela sua subsidiária, a ESH Hospitality (ou "ESH REIT"), um Fundo de Investimento Imobiliário dedicado à gestão de propriedades hoteleiras.

Ambas as entidades possuíam valores mobiliários negociados publicamente na NASDAQ sob a forma de uma *Paired Share*, composta por uma ação ordinária da ESA e uma ação ordinária de Classe B da ESH REIT.

A 15 de junho de 2021, a empresa foi adquirida numa *joint venture* entre a Blackstone e a Starwood Capital, numa transação acordada a um preço de $20,50/ação. Por consequência, este dia marcou também a saída da empresa da NASDAQ, com um preço de fecho de $20,46.

Este projeto teve início em novembro de 2020, com o objetivo original de determinar um preço-alvo para 2022YE e emitir uma recomendação de investimento com base no mesmo. Com o anúncio da aquisição em março de 2021, o objetivo deste relatório passou a ser determinar o valor intrínseco da empresa a 15 de junho de 2021, e compará-lo com o preço de aquisição. Definiu-se que uma avaliação justa por parte dos adquirentes consistiria num preço de aquisição não inferior (ou superior) em mais de 5% do valor intrínseco da empresa.

A *Paired Share* da empresa foi avaliada em $21,58 no seu último dia de negociação, recorrendo ao método *WACC* através de um modelo *DCF*. Esta avaliação foi complementada com duas abordagens *DCF* adicionais (*APV* e *Flow-to-Equity*), e uma avaliação relativa, com base nos múltiplos *EV* e de preço de um grupo de pares selecionados. O valor obtido na avaliação permite concluir que o preço de aquisição está 5,0% abaixo do valor intrínseco, o que significa que a empresa foi avaliada de forma justa - embora no limiar de ser subvalorizada pelo adquirente.

A atual incerteza económica resultante da pandemia COVID-19 poderá ser um fator associado a abordagens de investimento mais conservadoras, ainda que se espere uma recuperação progressiva. Por outro lado, o modelo de negócio da empresa provou ser excecionalmente resistente a esta crise, e o seu plano estratégico, juntamente com o lançamento da sua nova marca *premium*, permitem uma prospetiva positiva sólida sobre o futuro da Extended Stay America.

Classificação JEL: F01; G10; G17; G30; G32; G34.

Palavras-Chave: Hotelaria; Blackstone; Equity Research; ESG; Extended Stay America; Franchising; Hotéis; Fusões e Aquisições; Múltiplos; FII; RevPAR; Starwood Capital Group; Valorização.

Acknowledgements

This project symbolizes the end of my long journey as a student. At times it was exciting and captivating. At other times, it was hard, and the finish line seemed unachievable. But never was I alone, for I would not have made it this far if it weren't for those who walked alongside me.

To my family, for supporting me unconditionally.

To my friends, for having my back and making my days brighter.

To my supervisor, for all the help and insights.

To all of my colleagues and teachers, thank you. This is only the beginning.

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Abbreviations

ADR	Average Daily Rate
APV	Adjusted Present Value
AT	Asset Turnover
BICS	Bloomberg Industry Classification System
CAGR	Compounded Annual Growth Rate
CEO	Chief Executive Officer
COGS	Cost of Goods Sold
D/E	Debt-to-Equity
DCF	Discounted Cash Flow
EESC	European Economic and Social Committee
ESA	Extended Stay America
ESG	Environmental, Social and Governance
EV	Enterprise Value
FCFE	Free Cash Flow to Equity
FCFF	Free Cash Flow to the Firm
FY	Fiscal Year
GDP	Gross Domestic Product
HDI	Household Disposable Income
ICR	Interest Coverage Ratio
IMF	International Monetary Fund
IPO	Initial Public Offering
ISS	Institutional Shareholder Services
Kd	Cost of Debt
Ke	Cost of Equity
KPI	Key Performance Indicators
M&A	Mergers & Acquisitions
MRP	Market Risk Premium
NEO	Named Executive Officers
NFC	Near Field Communication
NOG	Net Owner Growth
NPM	Net Profit Margin
P/B	Price-to-Book
P/E	Price-to-Earnings
P/S	Price-to-Sales
PPE	Personal Protective Equipment
RCA	Real Capital Analytics
REIT	Real Estate Investment Trust
RevPAR	Revenue Per Available Room
Rf	Risk-free Rate
ROE	Return on Equity
ROI	Return on Investment
RSU	Restricted Stock Unit
rTSR	Relative Total Shareholder Return
SARD	Sum of Absolute Rank Differences
US	United States
WACC	Weighted Average Cost of Capital
YE	Year End
YOY	Year-Over-Year

Extended Stay America, Inc.

Fairly Valued

High risk

15 June 2021

Extended Stay America: Resilience and New Beginnings

1. Research Snapshot

Extended Stay America was **fairly valued** by its acquirers, with an intrinsic share value of $21.58 on June 15th, 2021, using a DCF model and implying that the agreed upon acquisition price of $20.50 per share is 5.0% below intrinsic value.

On March 15th, 2021, the company announced that it would be acquired by a consortium led by Blackstone, Inc. for a price of $19.50/share, implying a premium of 15.1% on the current share price of $16.94. The offer was later amended on June 1st and increased to $20.50/share, as many investors believed that the original offer undervalued the company. The paired shares' final trading day on the NASDAQ Global Market was on June 15th, when the acquisition was completed.

Resilient Business Model and Covid Recovery

The company's extended-stay concept allowed business to withstand the Covid-19 downturn relatively well - guests stay for an average of 17 nights and are mostly business travelers that value key amenities like kitchens. System-wide comparable RevPAR was $42.91 (vs $50.51 in 2019YE), representing a modest drop in comparison to the industry: Stay's comparable system-wide RevPAR index value was 127 in 2020YE (vs 96 in 2019YE). This translates as the company significantly outperforming the industry, with 65 consecutive weeks of RevPAR index gains. Five of the company's largest markets - which were impacted harder than all other markets - made up for around 45% of the EBITDA decline in 2020 vs 2019, providing solid upside post-COVID-19.

Strategic Growth and New Brand

Like many players in the industry, the company seeks an asset-light growth strategy focused on divesting selected assets as a source of capital to be put toward accelerated franchising and renovations. The next two years should see a surge in average annual capital expenditure to $291 million, mainly due to an especial focus on renovations in strategic locations.

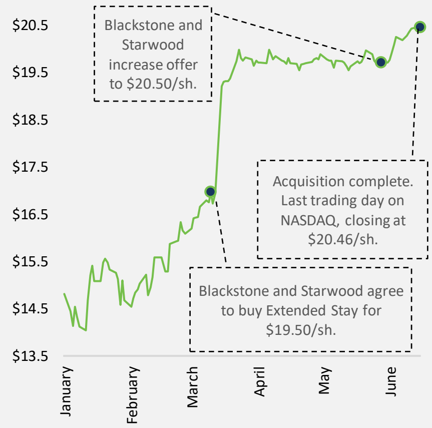
The company will be launching a premium brand – **Extended Stay America Premier Suites**. This project is expected to attract higher-rated extended stay guests and command a higher rate premium. Starting with more than 30 new and recently renovated owned hotels, all new construction owned hotels will be included in Premier Suites.

Transaction Rationale

Management states that the transaction provides significant value and reflects the potential in the company's strategic plan. The offer represents a +50% premium to pre-COVID share price, with an implied transaction EBITDA multiple of 15.6x (TTM 2020), 13.0x (forward 2021E) and 11.0x (2019), compared to the company's average multiple of 9.1x (one-year pre-COVID). The deal ultimately provides immediate value to shareholders.

Figure 1. Company Logo

Figure 2. Stock Price – 2021 Timeline



Source: *NASDAQ*

Table 1. Market Data & Deal Summary

Market Data - June 15th 2021	
Ticker (NASDAQ)	STAY
Market Cap (M)	$ 3 411
Closing Price	$ 20.46
Deal Data	
Nature	Friendly
% Owned / Sought	0% / 100%
Transaction Value (M)	$ 5 632
Equity Value (M)	$ 3 329
Net Debt (M)	$ 2 303
Acquisition Price (per share)	$ 20.50
Intrinsic Value	**$ 21.58**
Deal Discount	**5.00%**

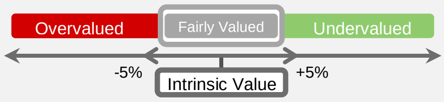
Source: *Bloomberg, Author's Analysis*

Table 2. Financial Highlights

	2020	2021F	2025F
RevPAR ($)	43.76	48.51	60.06
Revenues ($)	1 042	1 082	1 160
EBITDA ($)	408	486	540
Net Income ($M)	96	157	216
Cash & Equivalents ($M)	397	335	326
CAPEX ($M)	193	291	156
Interest Coverage Ratio (x)	1.55	2.40	3.78
ROE (%)	14%	24%	35%

Source: *Company Data, Author's Analysis*

Figure 3. Acquisition Price vs Intrinsic Value



2. Business Description

The business herein described is formed by **Extended Stay America, Inc.** (the "Corporation" or "ESA") and its controlled subsidiary, **ESH Hospitality, Inc.** ("ESH REIT"). The terms "company" and "Extended Stay America" refer to the Corporation, ESH REIT and their subsidiaries considered as a single group (**Appendix 43**).

History

George D. Johnson, Jr. and Wayne Huyzenga founded Extended Stay America in Florida in 1995, as a hotel owner/operator. The **extended-stay segment** of the hospitality industry can be defined as including all hotels with an equipped kitchen in each room, which accept reservations and that do not require a lease. The company started out in South Carolina and Georgia with its first two hotels and became public in December 1995 through an IPO.

Growth came over time through the acquisition and development of selected extended stay hotels. Worthy mentions are the acquisition of StudioPLUS in 1997 and the development of the Crossland Economy Studios brand as a low-cost extended-stay hotel.

By 2004, the company operated 475 hotels, which increased to 607 as it was **acquired by The Blackstone Group**, a private equity firm, for $3.1 billion in cash and debt. Blackstone sold its position to the Lightstone Group 3 years later, for **$8 billion**.

In the aftermath of the Great Recession, Extended Stay faced shortages in liquidity, and **ultimately filed for bankruptcy** in June 2009. However, operations continued since the company avoided liquidation through debtor-in-possession financing. In July 2010, it was **acquired through a bankruptcy auction** by an investment consortium made up of Blackstone, Paulson & Co., and Centerbridge Partners for **$3.93 billion**. The company managed to reorganize into its current setting and emerged from bankruptcy in October 2010, **completing an IPO** in November 2013 at a value of about $4 billion, based on the listing price.

In June 2021, the company announced that it had been acquired by a joint venture between Blackstone and Starwood Capital Group, in an all-cash transaction valued at around $5.6 billion.

As of today, the company is the **largest owner/operator of company-branded hotels in the United States**. All hotels include kitchens for each room, free Wi-Fi, and breakfast, flat screen TVs and guest laundry. The company serves the **mid-price segment** of the extended-stay market, which charges a **daily rate between $50 to $100**. Its services are targeted toward autonomous guests, planning to stay for **a week or longer**. Approximately **7,900 employees** currently work under the brand's platform, headquartered in North Carolina.

Key Drivers of Profitability

Besides macroeconomic indicators and commonly used financial indicators, there are three main lodging industry operating metrics that reflect and drive profitability: **ADR**, **Occupancy Rate**, and **RevPAR**.

ADR (Average Daily Rate) is obtained by dividing room revenues by the number of rooms sold, over a given period. Trends in this indicator can be useful to provide information about pricing policies and the customer profile.

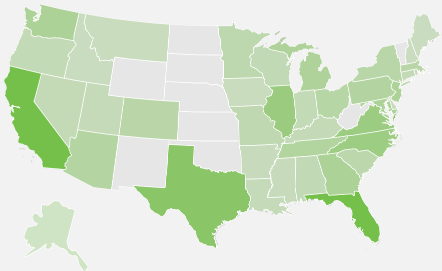
Occupancy Rate is obtained by dividing the total number of sold rooms by the total rooms available during a certain period. Occupancy helps estimating demand levels, which are important to determine achievable ADR levels.

Figure 4. Major Figures

7,900 EMPLOYEES	$374.1 Million ADJUSTED EBITDA
$3.0 Billion MARKET CAP	HOTELS IN 41 STATES
44.5% HOTEL OPERATING MARGIN	634 SYSTEM-WIDE HOTELS

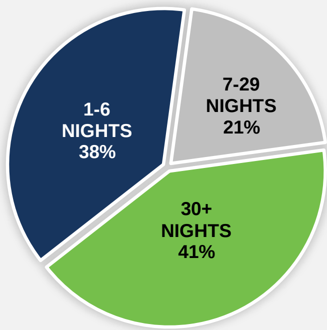
Source: *Company data, NASDAQ*

Figure 5. Owned Hotels Geographical Presence



Source: *Company data*

Figure 6. Average duration of stay



Source: *Company data (December 2019)*

RevPAR (Revenue per Available Room) is obtained as the product of ADR with the Occupancy Rate. Although it does not include supplementary hotel revenues, it is a **key indicator of revenues for hotels**. As of 2019YE, room revenues represented around 96% of the company's owned hotel revenues.

RevPAR changes caused by occupancy usually have different consequences on operating profitability when compared to changes caused by **ADR**. Increases in occupancy lead to increases in marginal operating costs, such as housekeeping services. On the other hand, higher room rates do not cause additional room-related costs. Consequently, changes in RevPAR driven by ADR generally affect profitability more than changes caused by occupancy levels.

Since FY15, **ADR increased at a 2.2% CAGR**, from $62.22 to $67.97 in FY19. Moreover, in the same period, **Occupancy Rate increased at a 1% CAGR**, from 73.7% to 76.7%. This resulted in a **3.3% CAGR for RevPAR**, which went from $45.89 to $52.16.

Operating Segments

The main reportable operating segments are the company's **Owned Hotels**, which relate to earnings derived from operating company-owned hotels - such as room revenues – accounting for 98.2% of total revenues in 2019, and **Franchise & Management**, which relate to earnings from fees associated to franchise and management agreements with third parties, making up for 1.8% of revenues in 2019.

As of May 2021, the company owned **564 hotels** through ESH REIT, representing approximately 62,500 rooms, spread across 40 states (**Figure 5**). These properties are leased to and managed by subsidiaries of the Corporation. During the year, 37.7%, 20.7% and 41.6% of guests stayed at these hotels for periods of 1-6 nights, 7-29 nights, and 30+ nights, respectively. Room revenues came from **property reservations** (24.5%), **central call-centers** (26.7%), **own proprietary website** (19.2%), **3rd party intermediaries** (26.2%) and **travel agencies** (3.4%) (**Figures 6 and 7**).

The company also **manages/franchises 88 hotels** for third parties, representing approximately 9,000 rooms. In 2019, 52.8% and 47.2% of this segment's revenues derived from franchising activities and management activities, respectively. The standard **agreement term for franchisees is 20 years**, who must pay an **initial application fee**, plus a monthly royalty and a fee for the licensing of the Extended Stay brand and use of system-wide platforms.

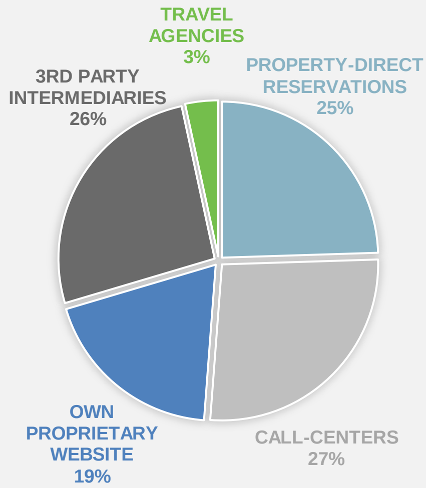
In total, **652 system-wide hotels** operate under the company's brand, with approximately 71,500 rooms. This represents around **42%** of the mid-price extended stay segment in the U.S. (**Figure 8**).

Financial Highlights

The company reached 2020YE with **adjusted EBITDA of $374.1M** (vs $535M in 2019YE), net income of $96.3M (vs $165.1M in 2019YE) and **hotel operating margin of 44.5%** (vs 51.8% in 2019YE). General drops in financial results were expected in the context of the **COVID pandemic**.

System-wide comparable **RevPAR was $42.91** (vs $50.51 in 2019YE), representing a modest drop in comparison to the industry: Stay's comparable system-wide **RevPAR index**[1] value was 127 in 2020YE (vs 96 in 2019YE). This translates as the

Figure 7. Room revenue sources

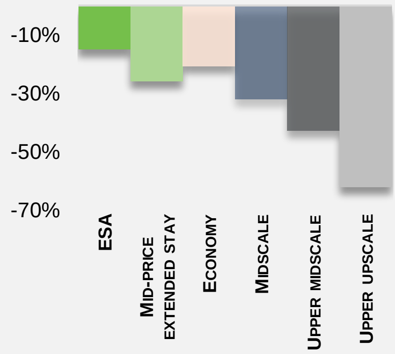


Source: *Company data (December 2019)*

Figure 8. Rooms in mid-price extended stay segment (US), (Brand/Parent)

Source: *Company data (September 2020)*

Figure 9. RevPAR % Change - 2020 vs 2019



Source: *Company data (February 2021)*

[1] RevPAR index compares the company's owned and franchised/managed hotels' RevPAR to the aggregate RevPAR of a group of competing hotels in the same market.

company **significantly outperforming the industry**, with 65 consecutive weeks of RevPAR index gains as of 2020YE. (**Figure 9**)

Extended Stay **withstood the Covid-19 downturn in 2020** relatively well, with a free cash flow of $30 million and more than $90 million in growth capex. Only 3 owned hotels had negative property-level adjusted EBITDA (**Figure 10**).

Paired Share & REIT status

Both the Corporation and ESH REIT have securities that were publicly traded and listed on NASDAQ as **Paired Shares** and were comprised of one share of common stock of the Corporation, along with one share of Class B common stock of ESH REIT. The Corporation controls ESH REIT through its ownership of ESH REIT's Class A common stock, representing 58% of outstanding common stock of ESH REIT. This combination allows investors to benefit from ownership interest both in **hotel properties** (through ESH REIT) and in **franchising and hotel management business** (through the Corporation).

ESH REIT is eligible to be **taxed as a Real Estate Investment Trust** and is expected to maintain said status. The paired share structure allows the company to **benefit from some of the tax savings** associated to a REIT.

Company Strategy

The company has a variety of plans to promote its growth. It **perceives the extended-stay market segment as being underserved**, providing room for the business to expand. Achieving economies of scale through national distribution and concentration of multiple hotels in individual markets has been key to leading the segment. Management **ultimately seeks to drive ADR**, by continually improving its product and service, as well as its marketing efforts.

Many hotel companies follow an **Asset Light Franchise Unit Plan**, including Extended Stay America. The company expects to pursue additional fee-based income streams, by selling non-strategic owned hotels to buyers interested in franchising the ESA brand or hiring management services. This, in turn, allows the company to **maximize the value of ESH REIT**, by reinvesting capital both into renovating certain owned hotels for better use, and by building new ESA hotels in key locations. As of 2020YE, the company had 8 owned hotels and 48 third-party hotels in pipeline, evidencing the company's plans to **drive growth through franchising in the coming years.**

Shareholder Structure

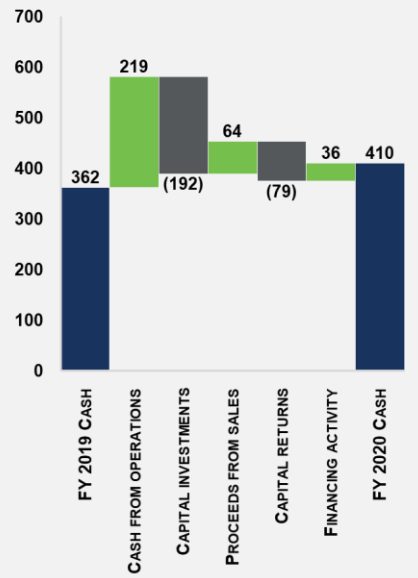
As of February 21, 2020, Extended Stay America, Inc. had 177,254,938 shares of common stock outstanding and ESH Hospitality, Inc. had 250,493,583 shares of Class A common stock and 177,254,938 shares of Class B common stock outstanding.

Preceding the transaction, company shares were traded on NASDAQ and **largely owned by Institutional investors** (97.28%), whereas 24 insiders (Board of Directors and Executive Commission) held 1.43% of shares outstanding (**Table 3**).

Dividend Policy

ESA is expected to **maintain dividend payments on its common stock** to reach a part of the expected distribution rate on the company's Paired Shares. These

Figure 10. FY20 Cash Flow (USD Million)



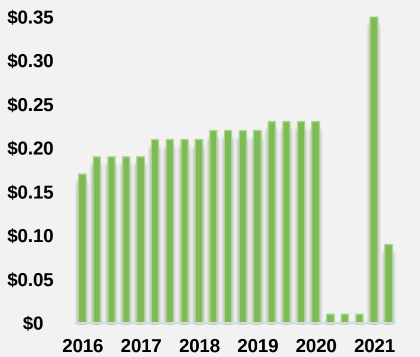
Source: *Company data (February 2021)*

Table 3. Top 10 Shareholders

Holder	(%) Owned	Type
Starwood Capital Group MGT	9.4%	Investment Advisor
Vanguard Group, Inc.	8.1%	Investment Advisor
FMR LLC	6.2%	Investment Advisor
BlackRock, Inc.	4.4%	Investment Advisor
River Road Asset MGT LLC	3.2%	Investment Advisor
Dimensional Fund Advisors LP	3.2%	Investment Advisor
Zimmer Partners LP	2.0%	Hedge Fund Manager
Hawk Ridge Capital MGT LP	2.0%	Hedge Fund Manager
Long Pond Capital LP	2.0%	Hedge Fund Manager
SouthernSun Asset MGT LLC	1.9%	Investment Advisor

Source: *Bloomberg (March 2021)*

Figure 11. Dividend per Paired Share



Source: *Bloomberg (March 2021)*

policies are merely a prediction defined by the Corporation's Board of Directors and depend[2] on the level of Class A common cash distributions received from ESH REIT.

ESH REIT has **stricter dividend policy requirements**: to maintain its status as a REIT, it must distribute at least **90%** of its taxable income to common stockholders.

The company generally pays quarterly dividends, which grew stably from $0.15 in 2Q 2014 to $0.23 in 1Q 2020. Subsequently to the pandemic, cash distributions dropped (**Figure 11**), and following the 2021 acquisition agreement, the company **does not expect to pay its regular quarterly distribution during the pendency of the transaction**. The acquirer may request a special distribution immediately prior to the closing of up to $1.75 per paired share, in which case the cash amount paid in the merger will be reduced by the amount of the distribution.

3. Management and Corporate Governance

Environmental Social Governance

Extended Stay America is committed to reaching the 17 global Sustainable Development Goals (SDGs) adopted by the United Nations. The company's current operations have the most significant impact on six of these: 5, 6, 7, 9, 11 and 12 (**Figure 12**).

Between 2011 and 2019, Extended Stay America invested more than $30 million on water and energy saving projects. Comparing to a 2011 baseline, the company saved $4,105,216 in water expenses and $5,980,185 in energy expenses, in 2019. The company is also a partner of the American Cancer Society, having created the "Hotel Keys of Hope" initiative, which gives away discounts for cancer patients receiving treatment away from home. More than 165,000 hotel room nights have been donated, helping over 19,000 patients save more than $9.5 million in accommodation. Further details on Sustainability KPI's and ESG topics and status can be found in **Appendix 44**.

Regarding ESG metrics, Extended Stay America earns an **ISS Governance QualityScore** of 1 out of 10 (lowest risk), contrasting with a **Bloomberg ESG Disclosure** score of 18.2 out of 100, which could explain the discrepancy between ISS's score and the higher **ESG Risk Rating** of 31.9[3] given by **Sustainalytics**.

Figure 12. Main UN SDGs

Source: *Company data (2020)*

Governance Model

Extended Stay's governance most closely resembles the **Anglo-Saxon** corporate governance model. Annual meetings are held, where shareholders elect **seven directors** to comprise the Board of Directors until their successors are elected or until their earlier death, resignation, or removal. The Corporation and ESH REIT each have their own Board and Executive Offers, although the CEO (Bruce N. Haase) and some directors overlap (**Tables 4** to **7**). The company closely follows both SEC and NASDAQ governance guidelines and requirements.

Table 4. Corporation's Executives

Corporation - Executive Officers	
Bruce N. Haase	**President / CEO**
David Clarkson	Chief Financial Officer
Christopher Dekle	General Counsel, Corporate Secretary
Kevin A. Henry	Executive VP, Chief Human Resources Office
Howard J. Weissman	Corporate Controller, Chief Accounting Officer
Randy Fox	Executive VP, Property Operations
Kelly Polling	Executive VP, Chief Commercial Officer
Michael L. Kuenne	Senior VP, Chief Customer Experience Officer
Nancy Templeton	Senior VP, Chief Information Officer

Source: *Company Data (April 2021)*

Board of Directors

The Board of Directors is the ultimate decision-maker of the company, except in the case of matters reserved to stockholders, such as electing directors and approving

[2] Among other operational factors
[3] Rating given on a general scale of 0-40, although scores can exceed the maximum value, being labeled as "Severe". Scores between 0-10, 10-20, 20-30 and 30-40 are labeled as "Negligible", "Low", "Medium" and "High", respectively.

executive compensation. The board coordinates and supervises the management of the business, operated daily by its **executive officers**.

Meetings must be held at least four times a year, and both boards are **composed by the CEO and six independent**[4] **directors** with large experience in managing industry-related businesses. Douglas G. Geoga is the **Chairman** of both boards – although this position can technically be taken by the CEO, this would require the independent directors to elect a **Lead Director**. The board prefers to keep these positions separate, since it clarifies individual roles and responsibilities, and enhances accountability.

There are three committees within each board: **Audit**, **Compensation**, and **Nominating & Corporate Governance**. Each committee has its written charter and must report directly to the Board. Each one is composed by three members, one being the chairperson. Directors can serve more than one committee.

Board Committees

The Board determines that every member of the **Audit Committee** must be independent and qualify as an "audit committee financial expert"[5]. The committee's responsibilities include monitoring:

- financial statement's quality and integrity
- the independent auditor's qualifications, performance, and independence status
- the internal audit function's performance.

The Corporation's audit committee is formed by Ellen Keszler, Jodie W. McLeany, and Richard F. Wallman (Chair).

ESH REIT's audit committee is formed by Lisa Palmer, Steven Kent, and Kapila K. Anand (Chair).

Every **Compensation Committee** member must be independent as defined by NASDAQ, and responsibilities include:

- overall compensation philosophy's establishment and reviewing
- defining the company executives' compensation, including the CEO, through the use of equity-based compensation, and the executive's performance regarding previously established goals
- making recommendations to the Board about shareholder proposals regarding executive compensation.

The Corporation's compensation committee is formed by Kapila K. Anand, Thomas F. O'Toole, and Jodie W. McLeany (Chair).

ESH REIT's compensation committee is formed by Neil Brown, Simon Turner, and Lisa Palmer (Chair).

Every **Nominating and Corporate Governance Committee** member must be independent as defined by NASDAQ, and their responsibilities include:

- establishing criteria for Board and committee membership, and recommending proposed nominees for election
- recommending candidates submitted by the company's shareholders

Table 5. ESA Hospitality's Executives

ESA Hospitality - Executive Officers	
Bruce N. Haase	**President / CEO**
David Clarkson	Chief Financial Officer
Christopher Dekle	General Counsel, Corporate Secretary
Howard J. Weissman	Corporate Controller, Chief Accounting Officer
Judi Bikulege	Chief Investment Officer

Source: *Company Data (April 2021)*

Table 6. Corporation's BoD and Committee Composition

Corporation - Board of Directors			
Bruce N. Haase	**President / CEO**		
Douglas G. Geoga	Chairman of the Board		
Members	**Audit**	**Comp.**	**NCG**
Ellen Keszler	M		M
Jodie W. McLean	M	M	
Kapila K. Anand		C	
Richard F. Wallman		M	C
Thomas F. O'Toole	C		M

C – Chairperson M - Member

Source: *Company Data (April 2021)*

Table 7. ESA Hospitality's BoD and Committee Composition

ESA Hospitality - Board of Directors			
Bruce N. Haase	**President / CEO**		
Douglas G. Geoga	Chairman of the Board		
Members	**Audit**	**Comp.**	**NCG**
Lisa Palmer	M	C	
Kapila K. Anand	C		M
Neil Brown		M	M
Steven Kent	M		C
Simon Turner		M	

C – Chairperson M - Member

Source: *Company Data (April 2021)*

[4] Defined in accordance with the NASDAQ governance rules for listed companies, requiring annual revision from the Board. Among other factors, the definition requires the director not to be an employee of the company and to have not engaged in business dealings with the company.
[5] As defined in Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the NASDAQ listing standards.

- reviewing the Corporate Governance policies and the composition and performance of each committee
- supervise Board and management evaluation.

The Corporation's nominating and corporate governance committee is formed by Ellen Keszler, Richard F. Wallman, and Thomas F. O'Toole (Chair).

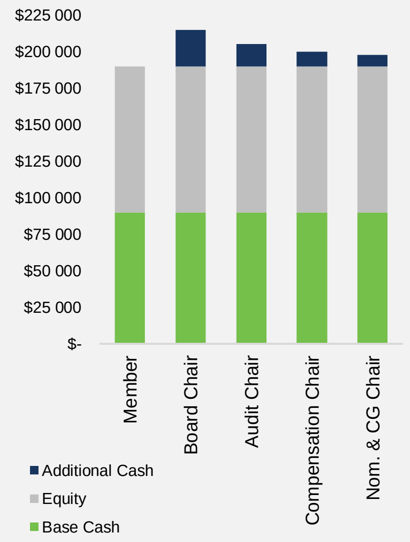
ESH REIT's nominating and corporate governance committee is formed by Kapila Anand, Neil Brown, and Steven Kent (Chair).

Director Compensation

The Compensation Committees approved compensation programs for both independent directors and company executives.

Each independent director is entitled to receive an **annual cash amount of $90,000** and **annual equity of $100,000**. Equity retainers are given under the form of **RSUs** and vest over the period of one year, starting from the granting day. The chair members of the Board Committees receive a bonus cash amount: **Board ($25,000)**, **Audit Committee ($15,000)**, **Compensation Committee ($10,000)**, **Nominating and Corporate Governance Committee ($7,500)**. The board chair is not expected to receive an additional cash amount in a scenario where he or she also serves as a committee chair. Directors who serve both the company's boards (ESH REIT and Corporation) receive an annual cash amount of **$120,000** and an annual equity amount of **$150,000**. The CEO is not expected to receive additional compensation for carrying out duties with the Board (**Figure 13**).

Figure 13. Director Annual Compensation



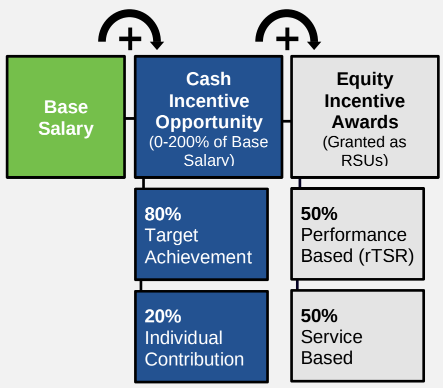
Source: *Company Data (2020)*

Executive Compensation

The Executive Compensation program follows base guidelines, such as **performance-based pay**, **alignment with shareholders**, and **attraction & retention**. Under this philosophy, the company expects to employ the best leaders in the industry to accomplish business goals, stimulating short and long-term profitable growth, creating long-term **shareholder value**. The Compensation Committee oversees this program with Pearl Meyer, an independent consultant, and examines its effectiveness on an annual basis.

Executive's compensation is made up of three components – **base salary**, **annual cash incentive opportunity** (short-term component), and **equity incentive awards** (long-term component). NEO's ("Named Executive Officers") are also entitled to a standard package of employee benefits, providing medical coverage, retirement savings opportunities, and other welfare benefits **(Figure 14)**.

Figure 14. Executive Annual Compensation



Source: *Company Data (2020)*

Base salary should be in line with each executive's position, responsibilities, and experience and set at a competitive level when compared to salaries in competing companies and markets.

The **annual cash incentive opportunity** makes up for the remainder of the cash compensation package and depends on performance objectives. This element can be anywhere between 0% to 200% of the target award, which is equal to the annual base salary. The bonus threshold is set at 50%, meaning a minimum of 50% of the target must be achieved to earn the bonus. Targets are based on adjusted EBITDA[6] goals (80% of bonus) and individual contribution to achieve said goal, assessed by the Compensation Committee (20% of bonus).

Equity incentive awards motivate NEOs to act and operate on long-term strategic and financial objectives that seek to **drive shareholder value**. There are two types

[6] Adjusted EBITDA excludes certain expenses that are not indicative of ongoing core operating results and reflects the expectations of the general economic and industry factors and the results of management's initiatives to improve the Company's performance.

of equity awards: **performance-based** and **service-based**, which are equally weighted and granted as RSUs. Performance awards vest based on rTSR ("relative Total Shareholder Return") against a group of peers (**Appendix 45)** over a three-year period, whereas service-based award vest one-third per year over a three-year period.

In 2019, Mr. Haase received a total prorated base salary of $6,154, along with 275,000 RSUs[7] valued at $3,987,500. When compared to its selected compensation peer group, the company's CEO's compensation is in the 25th percentile, with 98% being payable in equity.

4. Industry Overview and Competitive Positioning

Drivers of Profitability

Occupancy Rate

The revenues of hotel companies are tied to how well they can manage available rooms, making this driver an accurate indicator of business efficiency. Optimally, the rate should be lower than 100% to increase the prices and maximize the revenues while keeping rooms that may be used for certain situations available without representing extra costs. The percentages of occupancy may vary with the size of the hotel – available data suggests that, on average, **the bigger the hotel, the higher the rate**. The growth of this indicator has been slowing down in the past 10 years, with a CAGR slowdown of 4.17% to 1.56% between 2011 and 2019 (2010 as base year). The sudden drop in 2020 is largely explained by the COVID pandemic, and rates are expected to recover in the short to medium term **(Figure 15)**.

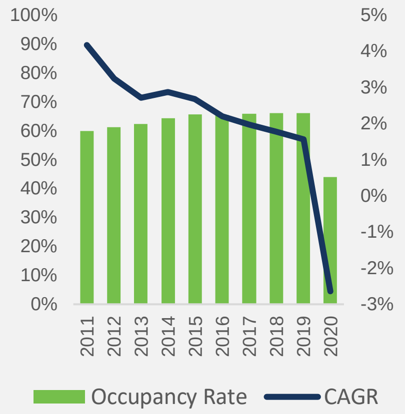
ADR

When paired with the occupancy rate, the ADR provides a better understanding of how well a hotel is managing its **potential revenues**. It is important to study the evolution of the ADR to understand the trend of the price that the customers are paying for the service. In the U.S., it grew at a CAGR of 3.27% between 2010 and 2019 **(Figure 16)**. During this period, the occupancy rate has slowly increased in the U.S., and inflation was 176 basis points lower than the ADR growth, concluding that on average, hotels are making more revenue per room than at the beginning of the period. In similarity to the Occupancy Rate, ADR should recover from its COVID-related downturn in the coming years.

RevPAR

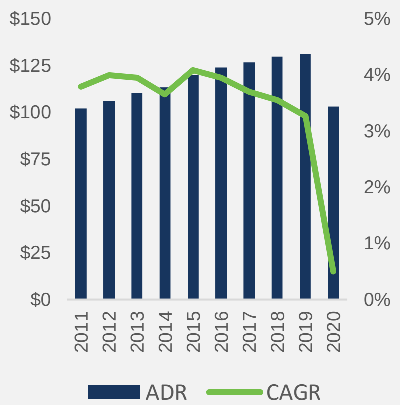
RevPAR has been steadily increasing throughout the years in the U.S., with no visible decrease in the 2011-2019 period. Despite its continuous growth, signs of a slowdown have become more evident, with a CAGR of 8.13% in 2011 and only 4.88% in 2019. Amidst the pandemic, RevPAR is estimated to have reached 52% of its 2019 value in 2020, and a slow recovery is expected over the next 4 years **(Figure 17)**. This is a major risk for the industry due to the tight relation that this driver has with company revenues.

Figure 15. Occupancy Rate in the US



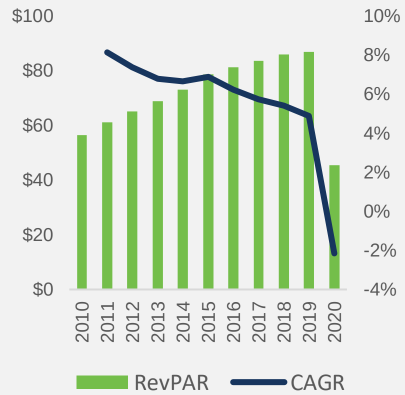
Source: *Statista (2021)*

Figure 16. ADR in the US



Source: *Statista (2021)*

Figure 17. RevPAR in the US



Source: *Statista (2021)*

[7] 175,000 restricted stock units granted in respect of Mr. Haase's base compensation package and 100,000 service-based restricted stock units.

Economic Outlook

GDP

Up to 2019, the global economy had been facing a growth deceleration, experiencing an annual average growth of 3.7% from 2010 to 2019. The growth differential between the U.S. and Euro Area increased in 2018, after having been converging since 2014. This could be explained by the **trade war between China and the U.S.** which concerned European businesses regarding their largest trading partners, prompting a decrease in exportations. The mismatch of skills may also explain this divergence, translating into a loss of 0.80€ per hour of work[8].

The **COVID-19 pandemic triggered an all-time low in 2020**. Economic activity dropped to unprecedented levels due to the lockdowns implemented throughout the world, inciting unemployment, lowering discretionary spending, and prompting business closures, resulting in Real GDP growth of -4.3%, -8.3%, and -4.4% for the U.S., Euro Area, and World, respectively[9] **(Figure 18)**.

Household Disposable Income

Household Disposable Income (HDI) per capita had been following the same positive trend as the GDP in the U.S., due to the increase in consumer spending. As the pandemic hit, this trend was cancelled out, with a sharp rise in HDI and a coincident drop in GDP. Despite a 6% decrease in compensation of employees in 2020 Q2, **social benefits received in cash by the household sector increased by 76.4%** and household final consumption decreased by 10%, explaining this momentary surge in HDI **(Figure 19)**.

World Population

World population is expected to reach 7.875 billion in 2021 (+1.028% YOY) and 7.954 billion in 2022 (+1.003% YOY). The world population rose at a 0.808% CAGR during 2017-2020 and has a CAGR prediction of 0.676% between 2020 and 2022 **(Figure 20)**.

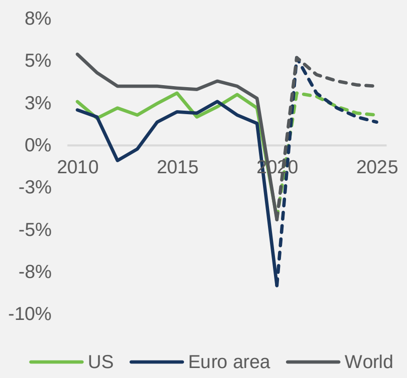
Global Corporate Profit

Amidst the pandemic, corporate profits are presenting lower values than expected for the period. As an important driver for business travelling, these profits are a good foreteller of revenues the industry may generate in the short-term. The CAGR fluctuated throughout the years, presenting **low levels every time a crisis broke out**, such as the 2008 financial crisis (-17.41%) and the current COVID-19 pandemic (-13.86%). It is important to refer that there is an overall positive trend since 2001 and that right after every crisis the CAGR seems to be extremely high in the short term, as shown in 2009-2010 and as is expected in 2021 **(Figure 21** and **Appendix 46)**.

Tourism

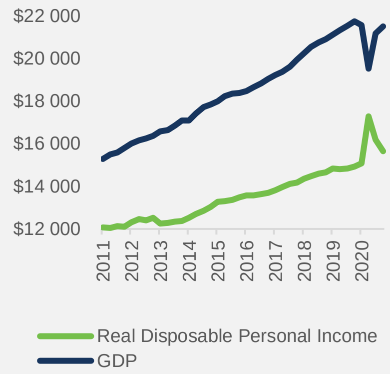
Tourism is a booster of the global economy, creating jobs and generating tax revenues. It is one of the most affected industries by the current changing environment and the resulting uncertainty. Because of its dependence on

Figure 18. Real GDP growth (annual % change)



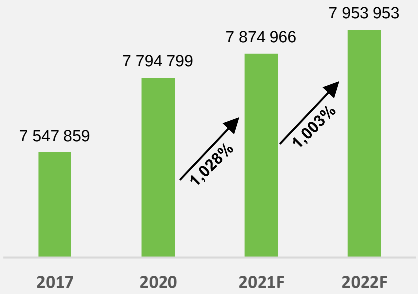
Source: *IMF (2020)*

Figure 19. US DPI vs GDP (billions of chained 2012 dollars)



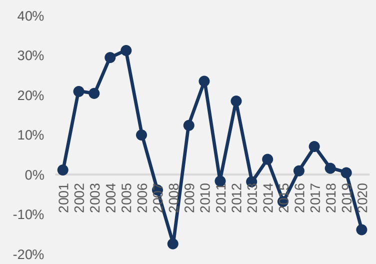
Source: *Federal Reserve Economic Data (2021)*

Figure 20. World Population (thousand)



Source: *United Nations (2020)*

Figure 21. Corporate Profits USA



Source: *Federal Reserve Economic Data (2020)*

[8] According to the EESC.

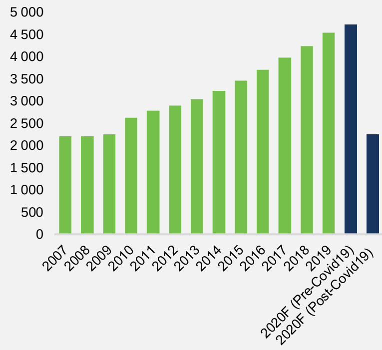
[9] IMF, 2020.

macroeconomic stability, it is usually among the first industries to suffer impacts from economic crisis and other disturbances, such as pandemics.

After recovering from the 2008 crisis, tourism was among the **fastest growing industries**. The rise in tourism demand, combined with the GDP and global HDI growth, led to an increase in the air transport industry, represented by the rise in global passengers **(Figure 22)**.

The industry was expected to maintain this growth, with a forecast of 4.72 billion passengers carried in 2020 (+3.96% YOY) . Because of its vulnerability, the sector was **severely affected by the pandemic**, suffering substantial losses in investments, profits, and jobs **(Figure 23)**.

Figure 22. Global Arrivals (million)



Source: *Data World Bank; Statista (2020)*

World Hotels Demand

The hotel industry is cyclical, and after a decade of growth, with a CAGR of 6% during 2009-2017, it now faces a downcycle triggered by COVID-19. The drop in GDP and HDI will negatively affect demand, translating into lower consumer spending and leisure traveling. Business travels, which reflect on corporate profits, will also drop, since alternatives such as **video conferencing** are becoming more widely used. Reflecting this lower demand, the number of consumers dropped to 595.1 million (-46.8% YOY). The industry revenue is projected to reach $199 billion in 2020 (-46.07% YOY) and is expected to grow at an 18.1% CAGR during 2020-2025 **(Figure 24)** which would lead to a forecasted market volume of $456 billion by 2025.

Since price wars would result in lower average room rates, this practice should not be expected. Thus, RevPAR **(Figure 17)** will mirror the occupancy recovery. It is expected to drop 60% in Europe and is not likely to recover until at least 2023[10]. Occupancy rate in the U.S. dropped to 41% in 2020 and is only expected to fully recover by the end of 2022.

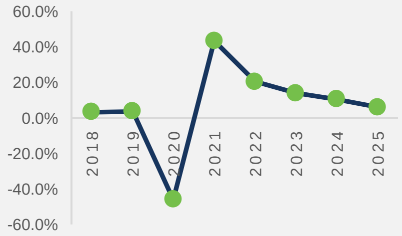
Figure 23. Global Tourism Profits vs Global GDP (USD billion)

Source: *World Tourism Organization; Data World Bank; Statista*

World Hotels Supply

The supply side in the industry, represented by the number of hotels worldwide, is inelastic and grew at a CAGR of 1.2% during 2008-2018 **(Figure 25)**. As the costs of entering the market represent an entrance barrier, this can be interpreted as big chain's investments with some niche investments. In the lodging industry, however, there is a rising risk for small companies and low segments of big hotels in the Sharing Economy. **Airbnb has grown in popularity** in the last decade, reaching 150 million users in 2018, growing at a CAGR of 58% between 2012-2018. This new type of lodging may saturate some markets. It is also important to understand who is supplying in this industry, with different region markets displaying a great disparity. In Europe, most hotels are independent (68% of total market), whereas **in the U.S., branded hotels take the lead**, with a 74% share of the total market[11].

Figure 24. Revenue growth adjusted to expected COVID-19 impact



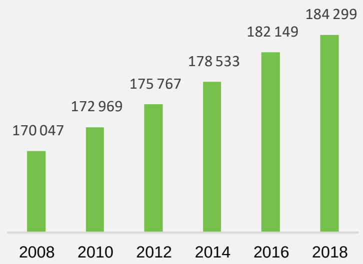
Source: *Statista*

Hotel Prices

The hotel industry prices are very susceptible to changes over time and are strongly tied with macroeconomic factors.

In the U.S., prices increased over the last year. Several factors usually explain this growth: the **increase in the tourism level** has a positive effect on occupancy rates, representing a long-term price driver. On the other hand, the **number of available**

Figure 25. Number of hotels worldwide



Source: *Statista*

[10] FitchRatings, 2020
[11] Accor Annual Report, 2019

hotels acts as an opposite force that balances out the market price. There is also a **seasonal effect** on prices due to the traveling increase during summer.

The panorama changes with COVID-19. In the past year, price increases were also largely related to a steady recovery from the pandemic **(Figures 26 and 27)**.

Hotel Industry Overview[12]

The hotel industry constitutes a segment of the broader hospitality industry alongside Food & Beverage, Recreation, and Travel & Tourism. Despite being specialized in accommodation, it can provide goods and services related to these other segments, since there is a strong **interdependence** between them.

Industry Structure

The hotel industry is characterized as a **monopolistic competition** market - around 54% of rooms are affiliated with a global or regional chain. In 2019, the top five hotel groups (IHG, Marriott International Inc., Hilton Worldwide Holdings Inc., Wyndham Hotels & Resorts Inc., and Accor S.A.) had increased their market share by 5 p.p. **(Figure 28)**. Geographically speaking, the U.S. remains as the largest hotel market, although Greater China has been showing continuous growth **(Figure 29)**.

The hotel industry can also be categorized by price level, ranging from the **Luxury** segment to the **Economy** segment **(Figure 30)**. The reliance on brand loyalty and the degree of differentiation in the offering differ throughout, being more noticeable in higher-end segments.

M&A Activity

As competition intensifies, distribution channels proliferate, and consumers become more demanding. To establish a competitive advantage and aim for future growth, it is crucial to actively build a strong portfolio of distinctive, preferred brands for both owners and guests.

According to RCA, hotel M&As show a relatively steady upward trend compared with commercial M&As, having increased by $50 billion in ten years, up to $70 billion in 2019. The number of hotel M&A transactions has also shown an increasing trend, from 3 in 2014 to 18 in 2018.

With COVID-19, **M&A activity has slowed down** - March 2020 had less 365 M&A deals than the previous month, amounting to 1,984; the hotel industry is likely to replicate this trend. However, as the pandemic and its impact unfold, the number of M&As may increase due to the **dependence of small players on bigger companies to face the lack of demand**.

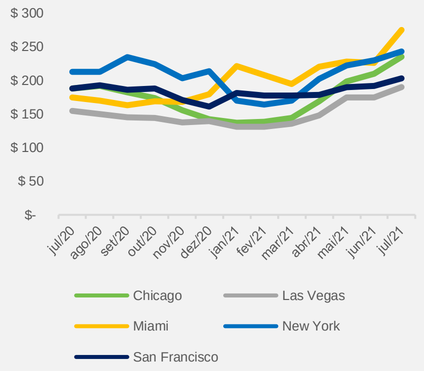
Industry Trend

The industry is leaving its standardized form and moving to **customization** and **differentiation**.

The ESG standards are vital for measuring the sustainability and social impact of investment in a company, being a growingly popular way for investors to value businesses. Hotels with a proven track-record in social causes also benefit from being included in **sustainability indexes**, such as the FTSE4GOOD **(Figure 31)**.

The industry continues to invest in technology to improve not only the customer experience, but also the efficiency of its operations. The rise of social media leads

Figure 26. Average hotel prices in major US cities (USD)

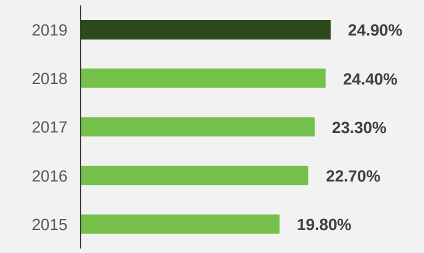


Source: *Trivago*

Figure 27. Average Hotel Prices in the US (USD)

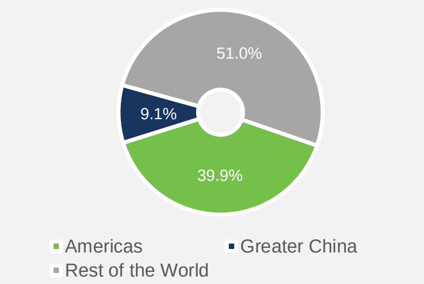
Source: *Trivago*

Figure 28. Branded hotels growth



Source: *IHG Annual Report 2019*

Figure 29. Total industry revenues (%)



Source: *IHG Annual Report 2019*

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[12] PESTEL analysis - Appendix 47

to the need for real '***Instagrammable***' experiences, with the hotel choice being as important as the chosen destination.

The sharing economy business model - adopted by brands such as Airbnb - has gained attention over the past decade, and poses a serious threat against the traditional accommodation industry.

Regarding Covid-19, the industry is still trying to rebuild and adapt. Many hotels have closed or are attempting to reopen under new safety and prevention standards.

Competitive Position

Peer Identification

As referred in Chapter 3, the company vests performance awards based on rTSR against a **group of peer companies (Appendix 45)**, defined based on recommendations from Pearl Meyer.

Keeping this in mind, another group of potential peers was extracted from Bloomberg, filtering for reasonable market cap values, U.S. companies, and specific BICS sectors – Consumer Discretionary for Corporation peers, and Real Estate for ESH REIT peers. A total of 18 and 15 potential peers came up for the Corporation and ESH REIT, respectively. After filtering for an overlap with the previously mentioned group of peer companies, and similarity in SARD variables such as ROE, D/E and EBIT margin, the top five results were selected as peers for each entity (**Appendices 48** and **49) (Tables 8** and **9).**

Corporation Peer Strategy

In a world of increasing uncertainty and competition, accelerated by the global pandemic, hotels remain focused on long-term sustainable growth. Players of the industry share several strategic similarities, such as a continuous investment in new technologies, asset-light business models built on franchising, and optimization of loyalty programs.

Hyatt's long-term growth strategy revolves around three pillars:

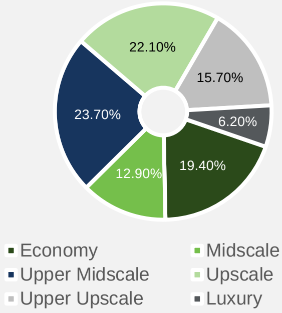
- Maximize its core business through differentiated brands and superior hotel economics that attract owners.
- Integrate new growth platforms, such as new hotel brands, wellness, alternative accommodations, and travel alliances.
- Optimize capital deployment, to maintain investment capacity while driving growth.

Choice has a portfolio of strong well-segmented brands, four of which in the extended stay segment – the newest, Everhome Suites, was launched in January 2020. The company is focused on franchise expansion in both domestic and international markets, with growth deriving from M&A (e.g., WoodSpring Suites in 2018), growth initiatives (e.g., comfort transformation and marketing/distribution technology), and optimal capital management oriented towards returning excess cash to shareholders through dividends and share repurchases.

Wyndham's key priorities in 2021 are to deliver 1-2% net room growth and return to 2-4% post COVID-19, while targeting 3-5% in the long-term. The company also envisions solidifying its franchisee support by driving lower-cost direct bookings and higher ADR through NextGen property level technologies and enhanced sales, marketing & revenue management services.

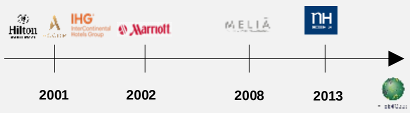
Marriott VW claims to be ideally positioned for travel recovery post COVID-19, benefiting from large square footage & in-room kitchens, making properties better

Figure 30. Total industry revenues (%)



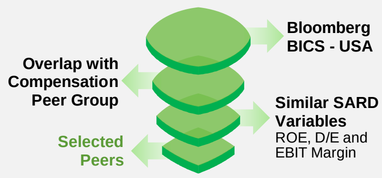
Source: *IHG Annual Report 2019*

Figure 31. FTSE4Good Index entries



Source: *Companies' reports*

Figure 32. Peer Selection Methodology



Source: *Author's analysis*

Table 8. Selected Corporation Peers

Corporation	
Name	**Ticker**
Hyatt Hotels Corp	H US Equity
Choice Hotels	CHH US Equity
Wyndham Hotels & Resorts Inc.	WH US Equity
Marriott Vacations Worldwide Corp.	VAC US Equity
Hilton Grand Vacations Inc.	HGV US Equity

Source: *Author's analysis*

suited for social distancing. Its highly resilient business model - with 45% of adjusted EBITDA from recurring sources – solidifies the company's diverse portfolio. The long-term growth strategy is to leverage strong license relationships, drive growth through digital, focus on new owners and younger generations, grow exchange and third-party management business and capture revenue synergies from the ILG acquisition in 2018.

Hilton GV has adapted to the pandemic, with a special focus on safeguarding its owners, guests and team members, through continuous rigorous cleaning standards under the HGV Enhanced Care Guidelines, social distancing, temperature checks, and PPE use. The company prioritizes both streamline spending - to maintain its strong liquidity position and optimize inventory assets – and protecting recurring revenue streams & embedded value. Member fee collection rate through February 2021 is on par with the same pre-Covid period in 2020, and the company managed to maintain positive NOG. In the long-term, HGV plans to grow demand and implement opportunities to create incremental value.

REIT Peer Strategy

Host Hotels & Resort is well-positioned to deliver best-in-class EBITDA growth by executing the following three strategic objectives:

- Redefine the operating model – the company wants to cut costs by \$100-\$150 million. As of May 2021, managers have taken steps toward 60% of this goal, by reducing the fixed component of above-property charges and adopting technologies that enhance productivity.
- Gain 3-5 index points in market share, by renovating assets.
- Allocate capital strategically, with low-to-mid teens targeted cash-on-cash returns from investment in ROI development projects.

MGM Growth Properties has a clear financial portfolio, thanks to its tenant's transparency, MGM Resorts International. The company emphasizes several growth opportunities: its main lease provides contractual rent growth through 2022; there are attractive lease acquisitions worth pursuing in leisure, hospitality and related sectors; and the company has the right of first offer on MGM Springfield & future Empire City Gaming Facility Developments, should MGM choose to sell such assets.

Park Hotels & Resorts' mission is to become a key hospitality REIT, dedicated to creating superior risk-adjusted returns for shareholders via active asset management and a tactful external growth strategy, while keeping a solid and flexible balance sheet. Its investment strategy is focused on Upper-Upscale & Luxury full-service, premiere urban and resort destinations, and affiliation with dominant global brands.

RLJ Lodging Trust adopts three strategic priorities: generate incremental cash, improve its capital structure, and strengthen its portfolio. In 2019, the company generated around \$0.8 billion in cash through the sale of 47 hotels, refinanced its debt by \$1.4 billion, and increased its absolute RevPAR by 8%. RLJ claims to have the liquidity and balance sheet strength to weather the COVID-19 crisis, being well-positioned for recovery with a transient-oriented portfolio, lean operating model and broad geographic diversification.

Xenia Hotels & Resorts' corporate strategy is ruled by a transaction-oriented mindset, with a focus on diversification, quality and portfolio enhancement. The company emphasizes the importance of a flexible balance sheet and prudent capital allocation, which provide the foundation for aggressive asset management initiatives.

Table 9. Selected ESH REIT Peers

ESH REIT	
Name	**Ticker**
Host Hotels & Resorts Inc.	HST US Equity
MGM Growth Properties LLC	MGP US Equity
Park Hotels & Resorts Inc.	PK US Equity
RLJ Lodging Trust	RLJ US Equity
Xenia Hotels & Resorts Inc.	XHR US Equity

***Source:** Author's analysis*

Figure 33. Corporations Peers - Logos

***Source:** Companies' reports*

Figure 34. ESH REIT Peers - Logos

***Source:** Companies' reports*

Table 10. SWOT Analysis

Strenghts

- Extended Stay America is a well-known experienced industry leader
- The company's RevPAR Index was already improving before COVID-19 and has maintained very high values well into the industry recovery, with 16 consecutive months of RevPAR index gains
- The company has solid free cash flows that allow to expand and invest in new projects.
- Experienced in successfully entering new markets. This type of expansion has helped build new sources of revenues and diversify risk in the markets the company is present.
- Solid track-record at executing projects and generating returns on CAPEX by creating new revenue streams.

Weaknesses

- The company's structure is fitted to its current business model, which could restrict expansion into new/adjacent segments.
- Current marketing could be improved, despite positive results. The brand's positioning and unique selling proposition can be its best defense against attacks in this segment from competitors.
- No international presence, unlike other hotel chains like Marriott and Hilton, which can impact brand recognition from foreign guests.

Opportunities

- The company's core brand will be renamed in Q2 2021 as Extended Stay America Suites, which can increase customers stay intent and willingness to pay
- New technologies provide an opportunity to practice a differentiated pricing strategy and improve operational efficiency. The company can maintain customers with quality service and attract new customers using different value-oriented strategies.
- Taxation policy changes in the US can significantly impact revenues and create new opportunities for mature companies to increase profitability.
- Expansion of loyalty program and client experience improvement.

Threats

- Rising pay level - movements such as *Fight for $15* can lead to pressure on profitability.
- Players in the industry have increased over time, which can impact profitability and general revenues.
- Economic recessions affect consumer budgets, causing them to cut unnecessary expenses like traveling.
- Uncertainty in international travelling, originated by terrorism and pandemics such as Covid-19 led to economic recessions that can hamper sales.
- Lower segments sharing the market with highly competitive and affordable alternatives such as Hostels and Airbnb.

Source: *Author's analysis*

Porter's 5 Forces

Threat of new entrants | LOW (2)

The high initial investment costs pose as one of the biggest barriers to enter the industry. With location being a key aspect for differentiation, new players remain at a disadvantage since popular destinations have limited available space. COVID-19 reduced the attractiveness of the industry, which combined with the other factors, results in a low threat of newcomers.

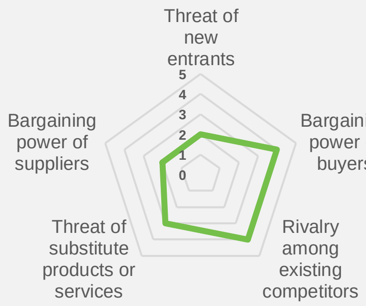
Bargaining power of suppliers | LOW (2)

There could be some level of power in cases of specifically trained personnel or in regions with lower supply, but the hotel industry is generally efficient at filling open job positions and mitigating supplier risks.

Bargaining power of buyers | Significant (4)

The increasing homogeneity in the service offering, added to low switching costs and the increasing popularity of platforms that allow customers to review their experience, build up consumers' price sensitivity. The pandemic exacerbated this condition, with businesses trying to remain afloat. Hence, hotels are usually price takers and buyers have a high bargaining power.

Figure 35. Porter's 5 Forces



Source: *Author's analysis*

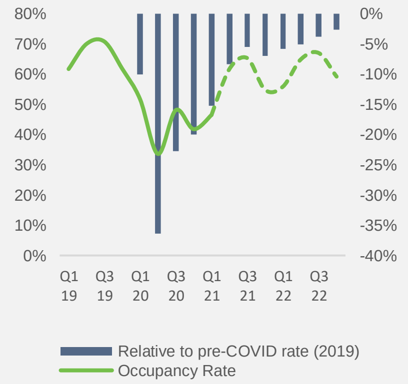
Threat of substitute products or services | Moderate (3)

The threat of substitutes varies across segments, being higher in the lower ones, mainly due to the existence of accessible alternatives such as hostels or Airbnb, which attract a young demographic that travels alone or in small groups. In the case of bigger groups and business travelers, hotels do not seem to face such a serious threat of substitute products.

Rivalry among existing competitors | Significant (4)

Competition in the hotel industry is fierce, mainly due to low differentiation and switching costs. Being a fragmented industry with high capital costs, there is pressure to sell capacity through reductions in price, enhancing the competition's intensity.

Figure 36. Forecasted Occupancy Rates (US)



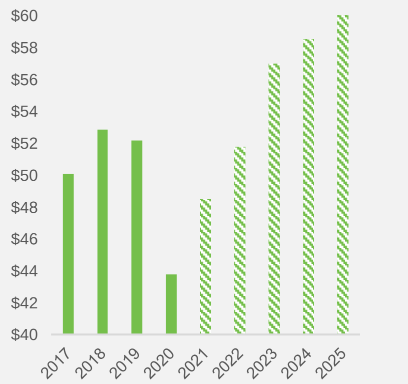
Source: *PwC (2021)*

5. Investment Summary

Extended Stay America's paired share was valued at **$21.58** on its final trading day in the stock market (**June 15th, 2021**), meaning that the agreed upon acquisition price of $20.50/sh. was **5.0% below intrinsic value**, and that the market's closing price of $20.46 was **5.2% below intrinsic value**. On March 15th, 2021 – the day of the original acquisition announcement at a price of $19.5/sh., the company's paired share was trading at $16.94, implying a 15.1% premium. The stock's market price did show a converging trend toward acquisition price, up to its final trading day on NASDAQ.

The company's undervaluation - reflected in the market and acquisition price - is partly due to the uncertainty associated to the COVID impact on the hotel industry, although massive vaccination schedules and the progressive lifting of restrictions suggest that recovery should be expected. Forecasted occupancy rates for the industry are consistent with this prediction, though pre-COVID levels will most likely not be reached before 2023 (**Figure 36**), which can explain investors' reluctance toward hotel companies.

Figure 37. Forecasted RevPAR



Source: *Company's Annual Report (2020)*

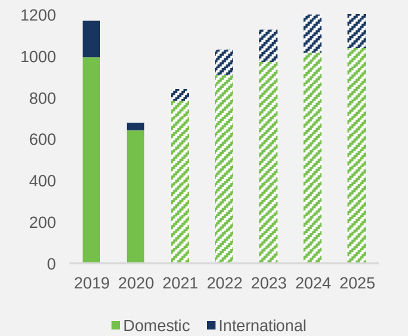
Key Drivers

Extended Stay America is the leader of the mid-price extended stay segment in the U.S., with around **42% of market share**. The company outperformed its competitors throughout the pandemic crisis, with a comparable system-wide RevPAR index value of 127 in 2020YE.

RevPAR is the company's main driver for room revenues, which represented 62% of global revenues for 2020YE. ESA's most recent annual report forecasts a **+6.5% 2020-2025 CAGR for this indicator,** with RevPAR reaching $60.06 in 2025 (**Figure 35**)**.** Macroeconomic factors such as GDP and tourism/travel growth are closely related to the company's results and should progressively bounce back to pre-COVID rates (**Figures 18** and **38**).

Like many players in the industry, the company seeks an asset-light growth strategy focused on divesting selected assets as a source of capital to be put toward accelerated franchising and renovations. Annual capital expenditures averaged at $214 million during 2015-2019, dropped to $192 million in 2020, and are expected to **grow up to an annual average of $291 million during 2021-2022**, mainly due to a special focus on renovations. These values should stabilize at $156 million from 2023 through 2025.

Figure 38. US Travel Spending Forecast ($Bn)



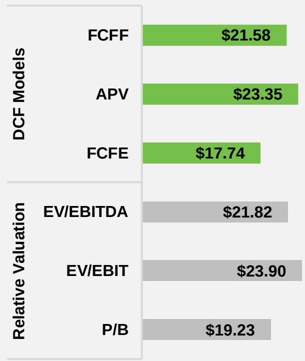
Source: *Tourism Economics and U.S. Travel Association*

Valuation Methods

Share value for June 15th, 2021, was obtained through a **DCF model, using the FCFF approach**. The APV method and FCFE approach were additionally used as absolute methods to complement the company's valuation. The Dividend Discount Model was deemed inappropriate for ESA's situation, given the current acquisition context and uncertainty about future dividend payout policy. A relative valuation based on the selected peers was also performed, using EV and price multiples. The most consistent results were obtained through EV/EBITDA, EV/EBIT and P/B, whereas EV/Sales, P/E and P/S yielded biased values due to peers with outlier multiples.

The selected valuation approaches to the company's Paired Share Value range from $17.89/sh. to $23.90/sh. (**Figure 39**).

Figure 39. Valuation Methods



Source: *Author's analysis*

6. Valuation

Absolute Valuation

Considering the company's paired share structure and its financial reporting methodology, ESA and ESH REIT were valued separately, through their respective consolidated financial statements. After arriving at individual share values, both were attached to obtain the **paired share value**. The forecast period is of 5 years, from 2021YE to 2025YE.

The DCF model reflects the company's financial projections by considering a great deal of information about the company's strategy, predictions and macroenvironment. The WACC was used to discount the company's FCFF and considered annual changes in capital structure. From this discount rate, it is easy to obtain both the cost of equity (incorporated in the WACC) and the pre-tax WACC to discount cash flows through the Flow-to-Equity and APV approach, respectively.

Forecast Analysis

The main driver for revenues is RevPAR. While occupancy rates are expected to stabilize at 77% (from 73% in 2020), **ADR should increase from $60 in 2020 to $78 in 2025**, according to the company's most recent investor presentation. Room revenues are additionally dependent on the number of owned hotels, which are expected to decrease over time, as the company follows through with its asset-light growth strategy.

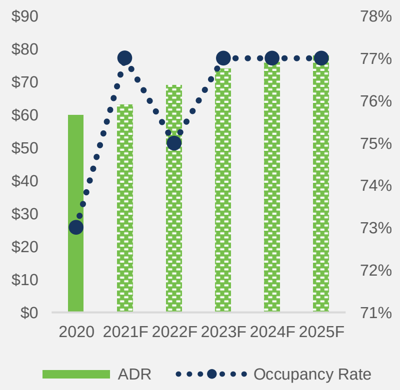
Operating expenses are mostly tied to room revenues and should roughly evolve in line with this indicator. PP&E is expected to depreciate at its average historical rate of 2.8%, whereas capital expenditure shall see a surge related to renovations in 2021-2022, before stabilizing from 2023 onwards.

Net working capital has been historically negative due to the company's portion of accounts payable. These values shall remain somewhat stable throughout the forecasted period, with accounts receivable/payable forecasts being indexed to revenues.

The company's acquisition adds a degree of uncertainty to future payout policies. Distributions and repurchases were forecasted in line with net income.

Further details on forecasting assumptions can be found in **Appendices 13** to **24**. All line-items left unmentioned are either equal to zero, constant or equal to ESA's assumptions (in the case of ESH REIT).

Figure 40. Forecasted Occupancy Rate and ADR



Source: *Company Forecasts*

Figure 41. Forecasted CAPEX ($ Million)

Source: *Company Forecasts*

WACC Assumptions

Cost of Equity (**Ke**) was calculated using the standard CAPM model. The benchmark for the risk-free rate (**Rf**) (1.96%) was the average monthly yield of the 10-Year U.S. Treasury Bond, using the 60 most recent observations. Market Risk Premium (**MRP**), was estimated at 5.5%, based on the average American MRP used by 1756 respondents to a survey[13] conducted by Pablo Fernandez. These rates are expected to remain constant throughout the forecast period, and equal for both ESA and ESH REIT. As for the Beta (**β**), both the pure-play (peers and industry) and regression methods were performed. The selected β was obtained by regressing the company's paired share against a selected market index[14], using the 60 most recent monthly observations. The resulting raw β was then lowered through the Blume Adjustment to 1.59. As market prices account for the company's current capital structure, this β was unlevered and then annually relevered (**Appendices 25** to **28**).

Cost of Debt (**Kd)** was estimated through the credit default spread method, by adding a company default spread – based on each year's interest coverage ratio – to the Rf (**Appendices 29** and **30**).

Capital structure was estimated using market values both for equity and debt. Market value of equity was forecasted by **multiplying each year's book value by the average historical P/B ratio from 2017-2020**. Market value of debt resembles its book value and was calculated by considering total debt as a single coupon bond – the coupon is equal to **total interest expenses and maturity is the weighted average maturity of the debt** (**Appendices 31** and **32**).

Terminal Value and Growth Rate

Terminal FCFF and FCFE were determined by normalizing both historical and forecasted values from 2017-2025 (**Figures 42** and **43**). This adjustment is made to reflect several factors that become stable as the growth rate becomes stable.

The terminal growth rate was computed through the **Stable Growth Model** and assumed to be equal to the average product between the company's Reinvestment Rate and ROE from 2018-2025 (**Appendices 33** and **34**).

Relative Valuation

Using the selected peers from Chapter 4 (**Tables 8** and **9**), several market multiples were extracted from Bloomberg, and used to arrive an Equity Value for the company. As there are different groups of peers for ESA an ESH REIT, this process was done separately, and the resulting outputs were averaged to obtain the final paired share value.

Both price and EV multiples were extracted – EV/Sales, P/E and P/S resulted in deviating outputs due to peers with outlier multiples, despite selecting median values over the average. As a result, only the remaining multiples were used for the purpose of this valuation – EV/EBITDA, EV/EBIT and P/B.

- **EV/EBITDA – peer median of 12.8x and 11.3x** for ESA and ESH REIT, respectively.
- **EV/EBIT – peer median of 17.0x and 20.2x** for ESA and ESH REIT, respectively.
- **P/B – peer median of 4.5x and 1.4x** for ESA and ESH REIT, respectively.

Table 11. ESA – WACC (2021F & Terminal Year)

ESA	2021F	Terminal
Re	**10.7%**	**10.8%**
Rf	1.96%	1.96%
MRP	5.5%	5.5%
Adjusted Beta Unlevered	0.84	
Adjusted Beta Levered	1.59	1.60
After-Tax Rd	**6.0%**	**5.1%**
Cost of Debt	6.8%	6.0%
Tax Rate	12.1%	15.1%
WACC	**8.3%**	**7.8%**
P/B	2.38	2.38
MV of Equity ($M)	2635	2453
MV of Debt ($M)	2676	2620
E/(D+E)	50%	48%
D/(D+E)	50%	52%

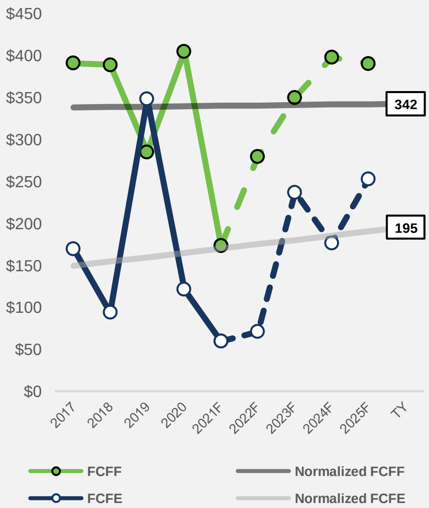
Source: *Author's analysis*

Table 12. ESH REIT – WACC (2021F & Terminal Year)

ESH REIT	2021F	Terminal
Re	**10.7%**	**10.6%**
Rf	1.96%	1.96%
MRP	5.5%	5.5%
Adjusted Beta Unlevered	0.82	
Adjusted Beta Levered	1.59	1.57
After-Tax Rd	**6.0%**	**5.6%**
Cost of Debt	6.0%	5.7%
Tax Rate	0.5%	0.5%
WACC	**8.4%**	**8.2%**
P/B	2.49	2.49
MV of Equity ($M)	2792	2872
MV of Debt ($M)	2633	2620
E/(D+E)	51%	52%
D/(D+E)	49%	48%

Source: *Author's analysis*

Figure 42. ESA – Terminal FCFF/FCFE Normalization ($ Million)



Source: *Author's Analysis*

[13] Fernandez, P. (2021), "Survey: Market Risk Premium and Risk-Free Rate used for 88 countries in 2021"

[14] Russell 1000 was selected due to the regression's higher R-Squared (0.59). Both the S&P500 and the Dow Jones Industrial Average yielded smaller values for this indicator.

7. Financial Analysis

Growing Profitability

Both ESA and ESH REIT have faced slight drops in profitability over the pandemic, with **Gross Profit Margins dropping by 7 p.p. and 3 p.p. in 2020**, respectively. These values are expected to bounce back to the pre-COVID standard and **stabilize around 52% and 86%**, respectively.

Net Profit Margins should show higher growth over the forecasted period – ESA is expected to reach a **19% NPM by 2025** (vs 14% in 2019), while ESH REIT can bump this indicator up to **44%** (vs 35% in 2019).

Return ratios are consistent with these margins, as ESA's ROA should grow from 2% in 2020 to 6% (4% to 7% for ESH REIT), mainly driven by the 18% and 10% 2020-2025 CAGR in Net Income. ROE[15] shows the highest growth in terms of profitability indicators - **ESA's ROE is expected to reach more than double its 2020 value in 2025, going from 14% to 35%**, whereas ESH REIT's ROE should grow from 16% to 24% over the same period. This growth is mainly driven by Net Income and the slight decrease in Equity, as Asset Turnover is expected to remain stable throughout the forecasted period.

Stable Capital Structure and Solid Solvency

The company has Debt-to-Equity ratios ranging around 2.4, which should persist over time – ESA's D/E is expected to show slight growth between 2020-2025, from 2.60 to 2.77, whereas ESH should compensate this change by decreasing from 2.61 to 2.39 over the same period. **The company's debt is comfortably backed up by a high Interest Coverage Ratio, which is only expected to grow over time.** ESA and ESH REIT are expected to achieve an ICR of 3.78 and 4.08 by 2025, respectively (vs 1.55 and 2.37 in 2020).

Debt-to-EBITDA is consistent with the ICR in terms of the company's ability to cover its debt obligations. ESA and ESH REIT should lower this indicator to 5.28 and 5.07 by 2025, respectively (vs 7.24 and 5.64 in 2020). This drop is mainly driven by EBITDA growth, with a 2020-2025 CAGR of 3% and 1% for ESA and ESH REIT, respectively.

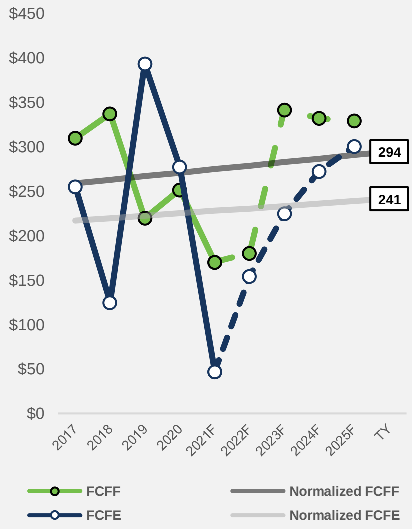
Steady Recovery in Efficiency and Strong Liquidity

As the company lacks specific line-items for Inventories and COGS in its financial statements, available efficiency indicators are limited to Asset Turnover and Days of Sales Outstanding. The latter is not necessarily a relevant measure of efficiency for Extended Stay America, as Accounts Receivable make up for a small portion of revenues. **Asset Turnover is mostly stable throughout the historical and forecasted period**, with pre-COVID values flattening at 0.31 and 0.17 for ESA and ESH REIT, respectively. The pandemic saw these indicators drop to 0.26 and 0.14 in 2020, driven by ESA's and ESH REIT's YOY revenue decrease – 14% and 13%, respectively. **AT should gradually recover and stabilize at 0.30 and 0.16 by 2024.**

Liquidity measures are a positive indicator of the company's ability to generate cash - despite an expected drop in 2022 driven by extraordinary capital expenditures, both cash and current ratios should grow throughout the forecasted period, with ESA

[15] Computed according to the DuPont Analysis: $Net\ Profit\ Margin \times Asset\ Turnover \times Equity\ Multiplier$

Figure 43. ESH REIT – Terminal FCFF/FCFE Normalization ($ Million)



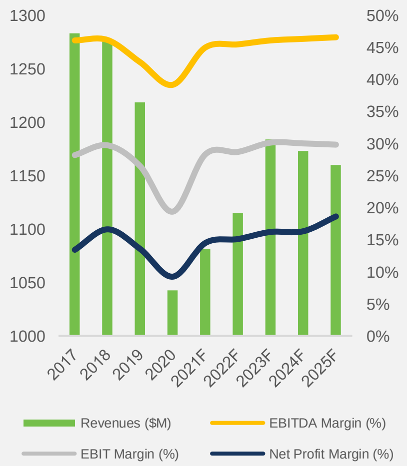
Source: *Author's Analysis*

Table 13. Relative Valuation Summary

EV Multiples		
EV/EBITDA	ESA	ESH REIT
Peers' EV/EBITDA (x)	12.8	11.3
Equity Value ($M)	3,520	3,891
Share Value ($)	20.73	22.91
Paired Share Value ($)	**21.82**	
EV/EBIT	ESA	ESH REIT
Peers' EV/EBIT (x)	17.0	20.2
Equity Value ($M)	2,526	5,592
Share Value ($)	14.87	32.93
Paired Share Value ($)	**23.90**	
Price Multiples		
P/B	ESA	ESH REIT
Peers' P/B (x)	4.5	1.4
Equity Value ($M)	5,005	1,525
Share Value ($)	29.47	8.98
Paired Share Value ($)	**19.23**	

Source: *Author's analysis*

Figure 44. ESA Profit Margins



Source: *Author's Analysis*

reaching a cash ratio of 1.57 and a current ratio of 1.72 by 2025 (2.65 and 2.90 for ESH REIT).

Further information regarding the company's financial ratios can be found in **Appendices 7** and **8**.

8. Investment Risks

Operational Risks

Data Privacy (OP1)

Data leaks in the current spectrum are a serious threat to any stakeholder – they can cause a loss of confidence on the customer's side, and impact expected profits. Besides a loss in demand, the company can face legal action and expensive fines. One of the most recent examples in the industry happened in 2018, with Marriott International Inc. receiving a fine of $25 million after a cyber-attack on its Starwood hotel reservation system exposed the personal information of millions of users.

Staff Shortage (OP2)

Shortage of skilled workers can slow down potential investments. If the company is unable to maintain a certain quality standard, it can be obliged to invest in developing and training staff while postponing or cancelling other projects. HR issues can reflect highly on the output and overall quality of the service.

Intellectual Property (OP3)

Intellectual property and trademarks are crucial to the reputation of a brand. The company occasionally applies to register trademarks, without any guarantee of success. Unauthorized use of intellectual property is complex to monitor, and litigation could be required to defend the company's rights – this event could result in considerable costs and deviation of resources, and harm results. The unlicensed use of the Extended Stay America trademarks could impact its brand value and competitive advantages.

Geographic Concentration (OP4)

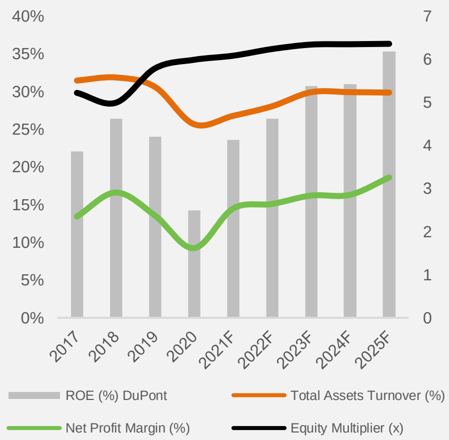
The company's concentration of hotel properties in a specific geographic area may impact operating results if it is impacted by negative economic circumstances. As of 2020YE, around 16% of the company's rooms were in California, 10% in Florida, 8% in Texas and 6% in Illinois. Business is particularly vulnerable to adverse economic conditions in these markets, as well as to natural disasters or terrorist events.

Market Risks

Uncertainty in International Travel (MK1)

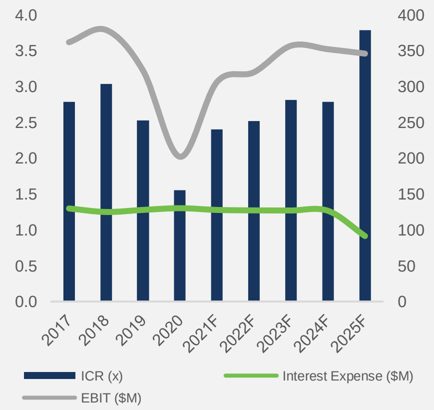
Uncertainty in international travelling originated by conflicts, terrorism, natural disasters, or pandemics can affect hotel businesses, which are highly dependent on the tourism inflow. The likelihood of any of these scenarios occurring is relatively low when assessed individually, although all have previously been observed and negatively affected the industry.

Figure 45. ESA – ROE (DuPont Analysis)



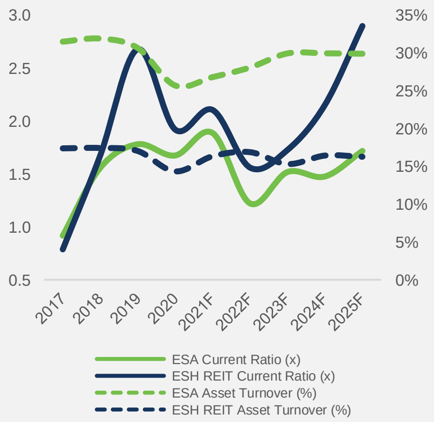
Source: *Author's Analysis*

Figure 46. ESA – Interest Coverage Ratio



Source: *Author's Analysis*

Figure 47. Current Ratio & Total Asset Turnover



Source: *Author's Analysis*

Sharing Economy (MK2)

The sharing economy concept has gained attention in the hotel industry over the past few years, due to its low regulation and tax obligations. This model has proven to be very profitable - users are rapidly increasing and can pose a great risk to low-cost hotels by driving down prices.

Fast Changing Consumer Demands (MK3)

The continual evolution of technology and environmental causes is changing how the industry must deal with consumer preferences. Younger generations are more conscious on these subjects and demand is dependent on how the company positions itself in this regard - adaptability is key. The use of new technologies like NFC, good internet coverage for guests or eco-friendly commodities can have a great impact on demand.

Harsh Competition (MK4)

The hotel industry is characterized by a relatively low service differentiation and lack of switching costs, making the price and quality of the service extremely decisive in an already competitive market. Differentiation is key for a competitive advantage.

New Entrants (MK5)

Entering the industry requires high initial investments and can pose a strong barrier of entry to new players - they must also invest in innovating services provided to customers to differentiate themselves from established competitors. The limited space available for construction in popular locations amounts to these difficulties. Thus, there is a relatively low likelihood of new competition in the industry.

Economical Risks

Lack of Economic Growth (EC1)

GDP growth is strongly related to the industry's output. Market slumps should lower demand and supply, bringing down revenues. The impact can be especially emphasized in the hotel business, given the ramifications of the decline in the economy, such as tourism levels and disposable income.

Exchange Rate (EC2)

Due to its globalization, the hotel industry is relatively vulnerable to fluctuations in exchange rates - costumer's buying power can shift and create oscillations in overall demand. The company has little exposure to foreign currencies, and the likelihood of having relevant issues with exchange rates is low and can easily be hedged.

Tax Laws (EC3)

Tax laws are present in every market and are not an imminent threat to profitability. This could change due to economic factors and become a heavier burden for the company in the unlikely event of changes in taxation. Another tax related issue would be in the case of ESH REIT failing to qualify as a REIT – this event would cause it to be taxed as a regular corporation and significantly reduce the amount of available cash.

Table 14. Risk Matrix

IMPACT ↑					
+	SC1	MK1	EC1		
			OP1	MK4	
	EC2	OP2	OP4	MK2	MK3
	MK5	OP3	RG1		
-		EC3			
	-		LIKELIHOOD →		+

Source: *Author's analysis*

Regulatory Risks

New Regulations (RG1)

The company is subject to several laws and regulations, such as environmental rules, health and safety precautions, and accounting standards. Compliance with any of the aforementioned could result in substantial costs and affect operating strategies. Changes in state laws regarding franchising or employment can also materially adversely affect the company.

Special Case Risk

COVID-19 Pandemic (SC1)

The COVID pandemic had a global negative effect on the economy and the hotel industry, with travel restrictions, quarantine precautions and consumer patterns affecting businesses the most. The impact on the company's results in 2020YE was negative, with a decline in RevPAR and Adjusted EBITDA of 16.1% and 30.1%, respectively. This event might negatively affect business performance and cash flows in the short/medium term, but the associated degree of likelihood remains uncertain.

Sensitivity Analysis

The DCF valuation is based on a set of assumptions that can highly affect the Paired Share value. Three of the pillar inputs for the model are **RevPAR**, **WACC** and the **long-term sustainable growth rate**. The first affects the company's FCFF, whereas the other two affect the discount rate. Several tests were conducted for a better understanding of the Paired Share's sensitivity to changes in these inputs.

Scenario and Sensitivity Analysis

RevPAR underwent a scenario analysis (**Table 15**), yielding a 12.9% share value increase in a scenario where forecasted RevPAR increases by 10%. In a scenario where forecasted RevPAR decreases by 10%, paired share value would drop by 13.2%.

ESA's and ESH REIT's terminal WACC and terminal growth were stressed in a sensitivity analysis (**Tables 16** and **17**). Share value seems to be most affected by changes in ESA's case – an increase of 10 b.p. in its terminal WACC results in an average share value decrease of $0.40 (1.9%), whereas the same change in its terminal growth rate results in an average share value increase of $0.42 (2%). When applying the same test to ESH REIT, the average decrease/increase associated to changes in WACC/g is of $0.15 (0.7%) and $0.16 (0.7%), respectively.

Table 15. Scenario Analysis – Average Forecasted RevPAR

RevPAR	Share Value	% Change
Optimistic (+10%)	$ 24.37	+12.9%
Original	**$ 21.58**	-
Pessimistic (-10%)	$ 18.74	-13.2%

Source: *Author's analysis*

Table 16. ESA – Sensitivity Analysis

Terminal WACC - ESA	Terminal Growth Rate - ESA: 1.7%	1.8%	1.9%	2.0%	2.1%	**2.2%**	2.3%	2.4%	2.5%	2.6%	2.7%
7.3%	$21.48	$21.90	$22.33	$22.78	$23.25	$ 23.74	$24.25	$24.77	$25.32	$25.89	$26.49
7.4%	$21.09	$21.50	$21.92	$22.35	$22.81	$ 23.27	$23.76	$24.27	$24.80	$25.35	$25.92
7.5%	$20.72	$21.11	$21.52	$21.94	$22.38	$ 22.83	$23.30	$23.79	$24.29	$24.82	$25.37
7.6%	$20.36	$20.74	$21.13	$21.54	$21.96	$ 22.40	$22.85	$23.32	$23.81	$24.32	$24.85
7.7%	$20.02	$20.38	$20.76	$21.15	$21.56	$ 21.98	$22.42	$22.87	$23.34	$23.83	$24.34
7.8%	$19.68	$20.04	$20.40	$20.78	$21.18	**$ 21.58**	$22.01	$22.44	$22.90	$23.37	$23.86
7.9%	$19.36	$19.70	$20.06	$20.42	$20.80	$ 21.20	$21.60	$22.03	$22.46	$22.92	$23.39
8.0%	$19.04	$19.38	$19.72	$20.08	$20.44	$ 20.82	$21.22	$21.63	$22.05	$22.49	$22.94
8.1%	$18.74	$19.06	$19.40	$19.74	$20.10	$ 20.46	$20.85	$21.24	$21.65	$22.07	$22.51
8.2%	$18.44	$18.76	$19.08	$19.41	$19.76	$ 20.12	$20.49	$20.87	$21.26	$21.67	$22.09
8.3%	$18.16	$18.46	$18.78	$19.10	$19.43	$ 19.78	$20.14	$20.51	$20.89	$21.28	$21.69

Source: *Author's analysis*

Table 17. ESH REIT – Sensitivity Analysis

Terminal WACC - ESH REIT	Terminal Growth Rate - ESH REIT										
	1.3%	1.4%	1.5%	1.6%	1.7%	**1.8%**	1.9%	2.0%	2.1%	2.2%	2.3%
7.7%	$21.54	$21.69	$21.85	$22.02	$22.19	$ 22.37	$22.55	$22.74	$22.93	$23.14	$23.35
7.8%	$21.40	$21.55	$21.70	$21.86	$22.03	$ 22.20	$22.38	$22.56	$22.75	$22.94	$23.15
7.9%	$21.26	$21.41	$21.56	$21.71	$21.87	$ 22.04	$22.21	$22.39	$22.57	$22.76	$22.96
8.0%	$21.13	$21.27	$21.41	$21.57	$21.72	$ 21.88	$22.05	$22.22	$22.40	$22.58	$22.77
8.1%	$21.00	$21.14	$21.28	$21.42	$21.57	$ 21.73	$21.89	$22.06	$22.23	$22.41	$22.59
8.2%	$20.87	$21.01	$21.14	$21.29	$21.43	**$ 21.58**	$21.74	$21.90	$22.07	$22.24	$22.42
8.3%	$20.75	$20.88	$21.01	$21.15	$21.29	$ 21.44	$21.59	$21.75	$21.91	$22.08	$22.25
8.4%	$20.63	$20.76	$20.89	$21.02	$21.16	$ 21.30	$21.45	$21.60	$21.76	$21.92	$22.08
8.5%	$20.52	$20.64	$20.77	$20.90	$21.03	$ 21.17	$21.31	$21.46	$21.61	$21.77	$21.93
8.6%	$20.41	$20.53	$20.65	$20.78	$20.91	$ 21.04	$21.18	$21.32	$21.47	$21.62	$21.78
8.7%	$20.30	$20.41	$20.53	$20.66	$20.78	$ 20.91	$21.05	$21.19	$21.33	$21.48	$21.63

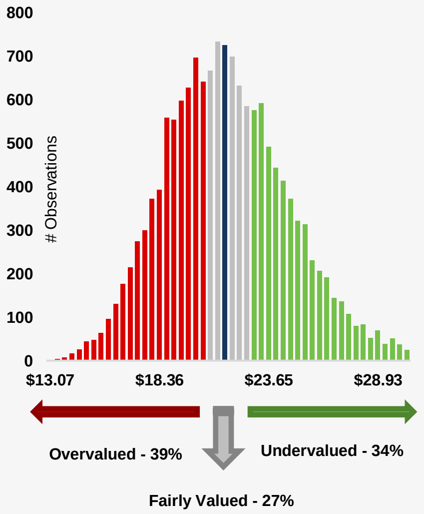
Source: *Author's analysis*

Monte Carlo Simulation

To complement these tests and stress all three variables simultaneously, a Monte Carlo simulation was performed through Oracle's Crystal Ball (**Figure 48** and **Table 18**).

After running 15,000 trials, mean output for Paired Share value was of $21.88, in line with the FCFF approach. There is a 39% likelihood of the company having been overvalued by the acquirer (output below -5% of Paired Share value), a 27% likelihood of a fair valuation (output between -5% and +5% of Paired Share value), and a 34% likelihood of an undervaluation (output above +5% of Paired Share value).

Figure 48. Monte Carlo Simulation



Source: *Author's Analysis*

Table 18. Monte Carlo Simulation - Statistics

Monte Carlo Simulation	
Trials	15 000
Mean	$ 21.88
Median	$ 21.66
Standard Deviation	$ 3.15
10th Percentile	$ 18.10
90th Percentile	$ 25.90

Source: *Author's analysis*

Appendices

Appendix 1: Statement of Financial Position - ESA

($ thousand)	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
PP&E	3 753 134	3 453 632	3 493 549	3 445 955	3 475 263	3 567 241	3 479 841	3 421 111	3 370 625
Restricted Cash	37 631	15 878	14 858	13 151	13 151	13 151	13 151	13 151	13 151
Cash and Cash Equivalents	113 343	287 458	346 812	396 770	335 411	213 852	290 566	278 888	325 516
Intangible Assets	27 043	28 714	34 183	34 093	35 861	37 630	39 398	41 166	42 935
Goodwill	48 866	45 192	45 192	45 055	45 055	45 055	45 055	45 055	45 055
Accounts Receivable	21 578	19 769	14 020	13 709	15 506	15 982	16 972	16 814	16 625
Deferred Tax Assets	8 125	7 309	16 157	0	1 273	593	3 295	1 396	0
Other Assets	66 285	66 258	65 825	140 416	66 196	66 196	66 196	66 196	66 196
ASSETS	**4 076 005**	**3 924 210**	**4 030 596**	**4 089 149**	**3 987 716**	**3 959 700**	**3 954 475**	**3 883 777**	**3 880 103**
Term Loan Facility Payable	1 265 112	1 121 713	618 338	613 667	607 358	601 049	594 740	588 431	582 122
Senior Notes Payable	1 269 656	1 273 794	2 014 298	2 020 190	2 027 720	2 035 250	2 042 780	2 050 310	2 057 840
Revolving Credit Facility	0	0	0	49 765	49 765	49 765	49 765	0	0
Mandatorily Redeemable Preferred Stock	7 133	7 130	7 130	0	0	0	0	0	0
Financial Lease Liabilities	0	3 360	3 379	3 668	3 668	3 668	3 668	3 668	3 668
Deferred Tax Liabilities	0	0	0	11 218	0	0	0	0	0
Accounts Payable and Accrued Liabilities	188 257	207 574	211 181	253 198	193 096	199 026	211 359	209 387	207 032
Total debt, net of unamortized deferred financing costs and debt discounts	2 541 901	2 402 637	2 639 766	2 683 622	2 684 843	2 686 064	2 687 285	2 638 741	2 639 962
LIABILITIES	**2 730 158**	**2 613 571**	**2 854 326**	**2 951 706**	**2 881 607**	**2 888 758**	**2 902 312**	**2 851 796**	**2 850 662**
Common stock	1 921	1 882	1 795	1 776	1 698	1 621	1 543	1 466	1 389
Additional paid in capital	768 679	749 219	742 397	725 865	725 865	725 865	725 865	725 865	725 865
(Accumulated deficit) retained earnings	6 917	32 432	(48 283)	(44 664)	(70 379)	(91 439)	(103 088)	(114 958)	(117 009)
Accumulated other comprehensive income	3 066	2 488	383	(206)	(1 631)	(1 336)	(739)	(753)	(130)
Total ESA shareholders' equity	780 583	786 021	696 292	682 771	655 553	634 711	623 581	611 620	610 115
Noncontrolling interests	565 264	524 618	479 978	454 672	450 556	436 231	428 582	420 361	419 327
EQUITY	**1 345 847**	**1 310 639**	**1 176 270**	**1 137 443**	**1 106 109**	**1 070 942**	**1 052 163**	**1 031 981**	**1 029 441**
EQUITY + LIABILITIES	**4 076 005**	**3 924 210**	**4 030 596**	**4 089 149**	**3 987 716**	**3 959 700**	**3 954 475**	**3 883 777**	**3 880 103**
Common shares outstanding (# thousand)	192 100	188 220	179 483	177 561	169 822	162 084	154 345	146 607	138 868

Appendix 2: Statement of Financial Position – ESH REIT

($ thousand)	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
PP&E	3 775 640	3 467 645	3 506 020	3 461 212	3 555 792	3 645 097	3 600 398	3 553 588	3 504 668
Restricted Cash	15 985	0	0	0	0	0	0	0	0
Cash and Cash Equivalents	38 930	178 538	296 134	375 715	219 372	158 526	165 178	224 149	310 731
Rents Receivable from Extended Stay America, Inc.	3 704	4 098	1 572	3 941	3 329	3 329	3 329	3 329	3 329
Deferred Rents Receivable from Extended Stay America, Inc.	24 388	8 637	28 917	39 135	25 269	25 269	25 269	25 269	25 269
Intangible Assets	0	2 760	9 590	8 541	7 488	6 438	5 392	4 350	3 311
Goodwill	47 584	44 012	44 012	43 878	43 878	43 878	43 878	43 878	43 878
Other Assets	29 212	22 692	21 209	18 695	22 952	22 952	22 952	22 952	22 952
ASSETS	**3 935 443**	**3 728 382**	**3 907 454**	**3 951 117**	**3 878 079**	**3 905 489**	**3 866 396**	**3 877 515**	**3 914 138**
Term Loan Facility Payable	1 265 112	1 121 713	618 338	613 667	607 358	601 049	594 740	588 431	582 122
Senior Notes Payable	1 269 656	1 273 794	2 014 298	2 020 190	2 027 720	2 035 250	2 042 780	2 050 310	2 057 840
Unearned rental revenues from Extended Stay America, Inc.	40 523	37 506	38 770	0	29 200	29 200	29 200	29 200	29 200
Due to Extended Stay America, Inc., net	7 055	12 177	11 838	92 791	9 047	9 047	9 047	9 047	9 047
Accounts Payable and Accrued Liabilities	57 889	64 658	71 453	125 507	79 668	81 803	74 034	79 209	78 946
Deferred tax liabilities	48	20	11	12	23	23	23	23	23
Financial lease liability	2 866	3 360	3 379	3 668	3 668	3 668	3 668	3 668	3 668
LIABILITIES	**2 643 149**	**2 513 228**	**2 758 087**	**2 855 835**	**2 756 683**	**2 760 039**	**2 753 491**	**2 759 888**	**2 760 845**
Common stock	4 426	4 387	4 300	4 281	4 203	4 126	4 048	3 971	3 894
Additional paid in capital	1 088 793	1 090 809	1 050 740	1 052 379	1 052 379	1 052 379	1 052 379	1 052 379	1 052 379
Preferred stock	73	73	73	73	73	73	73	73	73
Retained earnings	191 964	114 096	93 424	39 075	63 531	87 677	57 878	61 047	95 255
Accumulated other comprehensive income	7 038	5 789	830	(526)	1 210	1 195	(1 474)	157	1 692
EQUITY	**1 292 294**	**1 215 154**	**1 149 367**	**1 095 282**	**1 121 396**	**1 145 450**	**1 112 904**	**1 117 627**	**1 153 292**
EQUITY + LIABILITIES	**3 935 443**	**3 728 382**	**3 907 454**	**3 951 117**	**3 878 079**	**3 905 489**	**3 866 396**	**3 877 515**	**3 914 138**
Common shares outstanding - Class A (# thousand)	250 494	250 494	250 494	250 494	250 494	250 494	250 494	250 494	250 494
Common shares outstanding - Class B (# thousand)	192 100	188 220	179 483	177 561	169 822	162 084	154 345	146 607	138 868

Appendix 3: Income Statement – ESA

($ thousand)	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
Room revenues	1 260 868	1 237 311	1 171 726	994 896	1 039 684	1 071 457	1 138 266	1 126 434	1 112 359
Other hotel revenues	21 857	21 871	24 365	27 170	21 232	21 881	23 245	23 004	22 716
Franchise and management fees	0	3 310	5 412	5 389	5 815	6 612	7 517	8 547	9 718
=	1 282 725	1 262 492	1 201 503	1 027 455	1 066 731	1 099 949	1 169 028	1 157 984	1 144 794
Other revenues from franchised and managed properties	0	12 567	16 716	14 861	14 861	14 861	14 861	14 861	14 861
REVENUES	**1 282 725**	**1 275 059**	**1 218 219**	**1 042 316**	**1 081 592**	**1 114 810**	**1 183 889**	**1 172 845**	**1 159 655**
Hotel operating expenses	585 545	583 029	582 321	576 719	518 775	534 629	567 965	562 061	555 038
General & administrative expenses	94 652	91 094	95 155	92 173	86 044	83 122	80 200	77 277	74 355
Depreciation & amortization	229 216	209 329	197 400	206 013	180 146	186 782	188 522	191 125	194 034
Impairment of long-lived assets	25 169	43 600	2 679	1 095	1 095	1 095	1 095	1 095	1 095
=	934 582	927 052	877 555	876 000	786 060	805 628	837 782	831 558	824 523
Other Expenses from franchised and managed properties	0	13 217	18 870	17 041	17 041	17 041	17 041	17 041	17 041
OPERATING EXPENSES	**934 582**	**940 269**	**896 425**	**893 041**	**803 101**	**822 669**	**854 823**	**848 599**	**841 564**
GAIN ON SALE OF HOTEL PROPERTIES	9 973	42 478	0	52 525	26 244	26 244	26 244	26 244	26 244
OTHER INCOME	2 959	669	32	8	917	917	917	917	917
INCOME FROM OPERATIONS	**361 075**	**377 937**	**321 826**	**201 808**	**305 652**	**319 302**	**356 228**	**351 408**	**345 252**
OTHER NON-OPERATING INCOME	(399)	(765)	(391)	(81)	(409)	(409)	(409)	(409)	(409)
INTEREST EXPENSE	129 772	124 870	127 764	130 133	127 736	127 079	126 942	126 500	91 335
INCOME BEFORE INCOME TAX EXPENSE	**231 702**	**253 832**	**194 453**	**71 756**	**178 326**	**192 633**	**229 695**	**225 317**	**254 327**
INCOME TAX EXPENSE	59 514	42 076	29 315	(24 500)	21 655	24 317	37 835	34 010	38 454
NET INCOME	**172 188**	**211 756**	**165 138**	**96 256**	**156 671**	**168 316**	**191 860**	**191 307**	**215 872**
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(93 341)	(98 892)	(95 470)	(72 989)	(94 045)	(101 035)	(115 167)	(114 835)	(129 581)
NET INCOME ATTRIBUTABLE TO ESA COMMON SHAREHOLDERS	**78 847**	**112 864**	**69 668**	**23 267**	**62 626**	**67 281**	**76 692**	**76 471**	**86 291**

EBITDA	**590 690**	**588 031**	**519 617**	**407 902**	**486 207**	**506 494**	**545 159**	**542 941**	**539 695**
Equity-based compensation	7 552	8 318	6 913	6 510	7 323	7 323	7 323	7 323	7 323
Impairment of long-lived assets	25 169	43 600	2 679	1 095	1 095	1 095	1 095	1 095	1 095
Gain on sale of properties, net	(9 973)	(42 478)	0	(52 525)	(26 244)	(26 244)	(26 244)	(26 244)	(26 244)
System services loss, net	0	650	2 154	2 180	0	0	0	0	0
Other expense	9 467	2 860	5 829	8 936	6 364	6 364	6 364	6 364	6 364
Adjusted EBITDA	**622 905**	**600 981**	**537 192**	**374 098**	**474 745**	**495 032**	**533 697**	**531 479**	**528 233**
Hotel Operating Profit	**705 786**	**679 566**	**619 842**	**454 348**	**546 734**	**563 302**	**598 139**	**591 969**	**584 630**

Appendix 4: Income Statement – ESH REIT

($ thousand)	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
REVENUES - Rental revenues from Extended Stay America, Inc.	**683 500**	**667 428**	**649 898**	**562 809**	**639 231**	**656 362**	**594 027**	**635 553**	**633 440**
Hotel operating expenses	90 495	85 089	86 019	92 429	88 276	90 642	82 034	87 768	87 477
General & administrative expenses	14 801	15 245	15 189	15 259	15 084	15 488	14 017	14 997	14 947
Depreciation & amortization	225 484	207 313	193 798	202 263	159 789	165 064	167 175	169 286	171 396
Impairment of long-lived assets	15 046	0	0	675	675	675	675	675	675
OPERATING EXPENSES	**345 826**	**307 647**	**295 006**	**310 626**	**263 824**	**271 870**	**263 901**	**272 726**	**274 495**
GAIN ON SALE OF HOTEL PROPERTIES	8 562	(5 624)	0	52 196	13 784	13 784	13 784	13 784	13 784
OTHER INCOME	673	645	15	0	333	333	333	333	333
INCOME FROM OPERATIONS	**346 909**	**354 802**	**354 907**	**304 379**	**389 523**	**398 609**	**344 243**	**376 944**	**373 062**
OTHER NON-OPERATING INCOME	(227)	(869)	(310)	(148)	(389)	(389)	(389)	(389)	(389)
INTEREST EXPENSE	130 923	124 745	128 955	128 492	127 880	127 225	127 088	126 647	91 563
INCOME BEFORE INCOME TAX EXPENSE	**216 213**	**230 926**	**226 262**	**176 035**	**262 031**	**271 773**	**217 543**	**250 685**	**281 887**
INCOME TAX EXPENSE	1 229	797	375	167	1 328	1 379	1 095	1 269	1 432
NET INCOME	**214 984**	**230 129**	**225 887**	**175 868**	**260 703**	**270 393**	**216 448**	**249 417**	**280 454**

EBITDA	**572 620**	**562 984**	**549 015**	**506 790**	**549 701**	**564 062**	**511 806**	**546 618**	**544 846**

Appendix 5: Cash Flow Statement – ESA

($ thousand)	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
OPERATING ACTIVITIES	**446 520**	**449 850**	**399 950**	**218 751**	**400 334**	**346 801**	**393 657**	**368 701**	**396 729**
Net income	172 188	211 756	165 138	96 256	156 671	168 316	191 860	191 307	215 872
Adjustments to reconcile net income to net cash: provided by operating activities									
Depreciation & amortization	229 216	209 329	197 400	206 013	180 146	186 782	188 522	191 125	194 034
Foreign currency transaction (gain) loss	(713)	443	(391)	(81)	(186)	(186)	(186)	(186)	(186)
Loss on interest rate swap	667	0	0	0	0	0	0	0	0
Amortization and write-off of deferred financing costs and debt discount	8 097	8 614	13 687	8 237	9 659	9 659	9 659	9 659	9 659
Amortization and write-off of above-market ground leases	(136)	(1 427)	0	0	0	0	0	0	0
Debt modification and extinguishment costs	2 351	1 183	1 084	0	0	0	0	0	0
Loss on disposal of property & equipment	8 606	3 413	6 072	9 001	6 773	6 773	6 773	6 773	6 773
Gain on sale of hotel properties	(9 973)	(42 478)	0	(52 525)	(26 244)	(26 244)	(26 244)	(26 244)	(26 244)
Impairment of long-lived assets	25 169	43 600	2 679	1 095	1 095	1 095	1 095	1 095	1 095
Equity-based compensation	7 552	8 318	6 913	6 510	7 323	7 323	7 323	7 323	7 323
Deferred income tax (benefit) expense	963	1 019	(8 116)	27 580	4 365	4 901	7 626	6 855	7 751
Changes in assets and liabilities:									
Accounts receivable	(895)	2 244	5 749	311	(1 797)	(476)	(990)	158	189
Other assets	(3 606)	(10 214)	739	(74 039)	74 220	(17 023)	(17 023)	(17 023)	(17 023)
Accounts payable and accrued liabilities	7 034	14 050	8 996	(9 607)	(11 691)	5 880	25 241	(2 141)	(2 515)
INVESTMENT ACTIVITIES	**(99 140)**	**106 276**	**(259 809)**	**(127 769)**	**(224 274)**	**(224 274)**	**(89 274)**	**(89 274)**	**(89 274)**
Purchases of property & equipment	(166 378)	(158 709)	(182 364)	(117 988)	(178 147)	(178 147)	(95 502)	(95 502)	(95 502)
Acquisition of hotel properties	0	(12 729)	(10 136)	0	0	0	0	0	0
Development in process payments	0	(34 790)	(59 670)	(72 434)	(109 366)	(109 366)	(58 629)	(58 629)	(58 629)
Payments for intangible assets	0	(3 046)	(9 124)	(2 309)	(3 486)	(3 486)	(1 869)	(1 869)	(1 869)
Proceeds from sale of hotel properties	63 936	309 062	0	63 556	63 556	63 556	63 556	63 556	63 556
Proceeds from insurance and related recoveries	3 302	6 488	1 485	1 406	3 170	3 170	3 170	3 170	3 170
FINANCING ACTIVITIES	**(299 221)**	**(403 607)**	**(81 879)**	**(42 681)**	**(237 458)**	**(244 125)**	**(227 709)**	**(291 145)**	**(260 866)**
Principal payments on term loan facility	(12 943)	(147 215)	(507 261)	(6 309)	(6 309)	(6 309)	(6 309)	(6 309)	(6 309)
Proceeds from issuance of senior notes	0	0	750 000	0	0	0	0	0	0
Proceeds from revolving credit facilities	105 000	0	0	399 765	0	0	0	0	0
Payments on revolving credit facilities	(150 000)	0	0	(350 000)	0	0	0	(49 765)	0
Payments of deferred financing costs	0	0	(20 689)	(128)	0	0	0	0	0
Principal payments on finance leases	0	0	(117)	(137)	(850)	(397)	(400)	(402)	(429)
Debt modification and extinguishment costs	(2 351)	(1 183)	(1 084)	0	0	0	0	0	0
Tax withholdings related to restricted stock unit settlements	(3 548)	(3 989)	(1 598)	(860)	(2 499)	(2 499)	(2 499)	(2 499)	(2 499)
Repurchase of Corporation common stock and ESH REIT class B common stock (Paired Shares)	(62 323)	(85 405)	(130 721)	(31 094)	(77 384)	(77 384)	(77 384)	(77 384)	(77 384)
Repurchase of Corporation mandatorily redeemable preferred stock	(14 069)	(3)	0	(7 130)	0	0	0	0	0
Corporation common distributions	(56 126)	(45 791)	(67 182)	(17 972)	(41 158)	(44 217)	(50 403)	(50 257)	(56 711)
ESH REIT common distributions	(102 845)	(120 005)	(103 211)	(28 800)	(109 242)	(113 302)	(90 698)	(104 512)	(117 518)
ESH REIT preferred distributions	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)
Changes in cash, cash equivalents and restricted cash due to changes in foreign currency exchange rates	293	(157)	72	(51)	39	39	39	39	39
Change in Cash	**48 452**	**152 362**	**58 334**	**48 251**	**(61 359)**	**(121 558)**	**76 714**	**(11 679)**	**46 629**
Beginning	105 772	154 224	306 586	364 920	413 170	351 812	230 253	306 967	295 289
End	154 224	306 586	364 920	413 170	351 812	230 253	306 967	295 289	341 917

Appendix 6: Cash Flow Statement – ESH REIT

($ thousand)	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
OPERATING ACTIVITIES	**473 593**	**466 458**	**436 752**	**288 491**	**463 156**	**439 152**	**402 702**	**425 521**	**452 997**
Net income	214 984	230 129	225 887	175 868	260 703	270 393	216 448	249 417	280 454
Adjustments to reconcile net income to net cash: provided by operating activities									
Depreciation & amortization	225 484	207 313	193 798	202 263	159 789	165 064	167 175	169 286	171 396
Foreign currency transaction (gain) loss	(541)	340	(310)	(148)	(165)	(165)	(165)	(165)	(165)
Loss on interest rate swap	667	0	0	0	0	0	0	0	0
Amortization and write-off of deferred financing costs and debt discount	7 987	8 505	13 562	8 091	9 536	9 536	9 536	9 536	9 536
Debt modification and extinguishment costs	2 351	1 183	1 084	0	0	0	0	0	0
Amortization and write-off of above-market ground leases	(136)	(1 426)	0	0	0	0	0	0	0
Loss on disposal of property & equipment	8 606	3 413	6 072	9 001	6 773	6 773	6 773	6 773	6 773
Gain on sale of hotel properties	(8 562)	5 624	0	(52 196)	(13 784)	(13 784)	(13 784)	(13 784)	(13 784)
Impairment of long-lived assets	15 046	0	0	675	675	675	675	675	675
Equity-based compensation	412	836	545	498	573	573	573	573	573
Deferred income tax (benefit) expense	(3 733)	(15)	(9)	0	(1 943)	(2 017)	(1 601)	(1 856)	(2 095)
Changes in assets and liabilities:									
Deferred rents receivable from Extended Stay America, Inc.	15 162	15 044	(20 280)	(10 551)	13 866	0	0	0	0
Due from (to) Extended Stay America, Inc., net	(1 261)	(2 323)	2 411	(6 666)	(9 622)	0	12 330	0	0
Other assets	(2 855)	(3 541)	(1 744)	1 082	4 257	0	0	0	0
Unearned rental revenues/rents receivable from Extended Stay America, Inc., net	(470)	(3 412)	3 790	(41 139)	29 812	0	0	0	0
Accounts payable and accrued liabilities	452	4 788	11 946	1 713	2 684	2 103	4 741	5 065	(367)
INVESTMENT ACTIVITIES	**(102 506)**	**111 718**	**(253 398)**	**(123 110)**	**(256 204)**	**(256 208)**	**(106 490)**	**(106 494)**	**(106 497)**
Purchases of property & equipment	(163 797)	(153 513)	(175 933)	(115 094)	(213 367)	(213 367)	(114 383)	(114 383)	(114 383)
Acquisition of hotel properties	0	(12 733)	(10 136)	0	0	0	0	0	0
Development in process payments	0	(34 790)	(59 670)	(72 434)	(109 366)	(109 366)	(58 629)	(58 629)	(58 629)
Payments for intangible assets	0	(2 796)	(9 144)	(544)	(197)	(200)	(204)	(208)	(212)
Proceeds from sale of hotel properties	57 989	309 062	0	63 556	63 556	63 556	63 556	63 556	63 556
Proceeds from insurance and related recoveries	3 302	6 488	1 485	1 406	3 170	3 170	3 170	3 170	3 170
FINANCING ACTIVITIES	**(370 022)**	**(454 553)**	**(65 758)**	**(85 800)**	**(363 295)**	**(243 790)**	**(289 560)**	**(260 056)**	**(259 918)**
Principal payments on term loan facility	(16 193)	(147 215)	(507 261)	(6 309)	(6 309)	(6 309)	(6 309)	(6 309)	(6 309)
Proceeds from issuance of senior notes	0	0	750 000	0	0	0	0	0	0
Proceeds from revolving credit facilities	105 000	0	0	350 000	0	0	0	0	0
Payments on revolving credit facilities	(150 000)	0	0	(350 000)	0	0	0	0	0
Principal payments on loan payable to Extended Stay America, Inc.	(50 000)	0	0	0	0	0	0	0	0
Payments of deferred financing costs	0	0	(20 300)	(18)	0	0	0	0	0
Principal payments on finance leases	0	0	(117)	(137)	(850)	(397)	(400)	(402)	(429)
Debt modification and extinguishment costs	(2 351)	(1 183)	(1 084)	0	0	0	0	0	0
Repurchase of common stock	(22 773)	(31 057)	(47 507)	(11 406)	(28 186)	(28 186)	(28 186)	(28 186)	(28 186)
Issuance of Class B common stock related to issuance of Paired Shares	1 915	2 732	1 510	964	1 780	1 780	1 780	1 780	1 780
Common distributions	(235 604)	(277 814)	(240 983)	(68 878)	(329 714)	(210 661)	(256 429)	(226 923)	(226 758)
Preferred distributions	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)
Change in Cash, Cash Equivalents and Restricted Cash	**1 065**	**123 623**	**117 596**	**79 581**	**(156 344)**	**(60 846)**	**6 652**	**58 971**	**86 582**
Beginning	53 850	54 915	178 538	296 134	375 715	219 372	158 526	165 178	224 149
End	54 915	178 538	296 134	375 715	219 372	158 526	165 178	224 149	310 731

Appendix 7: Key Financial Ratios – ESA

Key Financial Ratios	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
Liquidity Ratios									
Current Ratio (x)	0.92	1.56	1.78	1.67	1.89	1.22	1.52	1.48	1.72
Cash Ratio (x)	0.60	1.38	1.64	1.57	1.74	1.07	1.37	1.33	1.57
Efficiency Ratios									
DSO	6.14	5.92	5.06	4.86	4.93	5.15	5.08	5.26	5.26
Total Assets Turnover (%)	31%	32%	31%	26%	27%	28%	30%	30%	30%
Profitability Ratios									
Gross Profit Margin (%)	54%	54%	52%	45%	52%	52%	52%	52%	52%
Hotel Operating Margin (%)	55%	54%	52%	44%	52%	52%	51%	52%	52%
EBITDA Margin (%)	46%	46%	43%	39%	45%	45%	46%	46%	47%
EBIT Margin (%)	28%	30%	26%	19%	28%	29%	30%	30%	30%
Net Profit Margin (%)	13%	17%	14%	9%	14%	15%	16%	16%	19%
ROA (%)	4%	5%	4%	2%	4%	4%	5%	5%	6%
ROIC(%)	0.4%	1.5%	-0.2%	1.7%	0.2%	0.3%	1.6%	1.2%	1.4%
ROCE (%)	9%	10%	8%	5%	8%	9%	10%	10%	9%
ROE (%) DuPont	22%	26%	24%	14%	24%	26%	31%	31%	35%
EPS (x)	0.41	0.60	0.37	0.13	0.36	0.41	0.49	0.52	0.61
SG&A/Sale (%)	7%	7%	8%	9%	8%	7%	7%	7%	6%
Solvency Ratios									
Debt to Equity Ratio (x)	2.03	1.99	2.43	2.60	2.61	2.70	2.76	2.76	2.77
Equity Multiplier (x)	5.22	4.99	5.79	5.99	6.08	6.24	6.34	6.35	6.36
Debt to EBITDA	4.62	4.44	5.49	7.24	5.93	5.70	5.32	5.25	5.28
Interest Coverage Ratio (x)	2.79	3.03	2.52	1.55	2.40	2.52	2.81	2.78	3.78
Value Creation and Cash Flow Ratios									
Cash to Income	2.59	2.12	2.42	2.27	2.56	2.06	2.05	1.93	1.84
Earnings Quality: CFO/(NP+D&A+ΔNWC)	1.05	1.12	1.13	0.65	1.23	0.99	1.07	0.96	0.96
Other									
P/B	2.71	2.24	2.27	2.31	2.38	2.38	2.38	2.38	2.38

Appendix 8: Key Financial Ratios – ESH REIT

Key Financial Ratios	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
Liquidity Ratios									
Current Ratio (x)	0.79	1.67	2.68	1.92	2.10	1.56	1.73	2.15	2.90
Cash Ratio (x)	0.37	1.56	2.43	1.72	1.86	1.32	1.47	1.91	2.65
Efficiency Ratios									
DSO	15.00	11.16	12.14	23.85	20.46	15.90	17.57	16.42	16.48
Total Assets Turnover (%)	17%	17%	17%	14%	16%	17%	15%	16%	16%
Profitability Ratios									
Gross Profit Margin (%)	87%	87%	87%	84%	86%	86%	86%	86%	86%
EBITDA Margin (%)	84%	84%	84%	90%	86%	86%	86%	86%	86%
EBIT Margin (%)	51%	53%	55%	54%	61%	61%	58%	59%	59%
Net Profit Margin (%)	31%	34%	35%	31%	41%	41%	36%	39%	44%
ROA (%)	5%	6%	6%	4%	7%	7%	6%	6%	7%
ROCE (%)	9%	10%	9%	8%	10%	11%	9%	10%	10%
ROIC(%)	-0.6%	-1.5%	-0.5%	3.6%	-2.1%	1.7%	-1.2%	0.7%	1.7%
ROE (%) DuPont	17%	18%	20%	16%	23%	24%	19%	22%	24%
EPS (x)	0.48	0.52	0.52	0.41	0.62	0.65	0.53	0.62	0.72
SG&A/Sale (%)	2%	2%	2%	3%	2%	2%	2%	2%	2%
Solvency Ratios									
Debt to Equity Ratio (x)	2.05	2.07	2.40	2.61	2.46	2.41	2.47	2.47	2.39
Equity Multiplier (x)	3.05	3.07	3.40	3.61	3.46	3.41	3.47	3.47	3.39
Debt to EBITDA	4.62	4.46	5.02	5.64	5.01	4.89	5.38	5.05	5.07
Interest Coverage Ratio (x)	2.65	2.85	2.75	2.37	3.05	3.14	2.71	2.98	4.08
Value Creation and Cash Flow Ratios									
Cash to Income	2.20	2.03	1.93	1.64	1.78	1.62	1.86	1.71	1.62
Earnings Quality: CFO/(NP+D&A+ΔNWC)	1.04	1.15	1.02	0.99	0.91	1.01	1.03	1.03	1.00
Other									
P/B	2.82	2.42	2.32	2.40	2.49	2.41	2.40	2.43	2.43

Appendix 9: Common-Size Statement of Financial Position – ESA

	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
PP&E	92%	88%	87%	84%	87%	90%	88%	88%	87%
Restricted Cash	1%	0%	0%	0%	0%	0%	0%	0%	0%
Cash and Cash Equivalents	3%	7%	9%	10%	8%	5%	7%	7%	8%
Intangible Assets	1%	1%	1%	1%	1%	1%	1%	1%	1%
Goodwill	1%	1%	1%	1%	1%	1%	1%	1%	1%
Accounts Receivable	1%	1%	0%	0%	0%	0%	0%	0%	0%
Deferred Tax Assets	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other Assets	2%	2%	2%	3%	2%	2%	2%	2%	2%
ASSETS	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Term Loan Facility Payable	31%	29%	15%	15%	15%	15%	15%	15%	15%
Senior Notes Payable	31%	32%	50%	49%	51%	51%	52%	53%	53%
Mandatorily Redeemable Preferred Stock	0%	0%	0%	0%	0%	0%	0%	0%	0%
Financial Lease Liabilities	0%	0%	0%	0%	0%	0%	0%	0%	0%
Accounts Payable and Accrued Liabilities	5%	5%	5%	6%	5%	5%	5%	5%	5%
LIABILITIES	**67%**	**67%**	**71%**	**72%**	**72%**	**73%**	**73%**	**73%**	**73%**
Common stock	0%	0%	0%	0%	0%	0%	0%	0%	0%
Additional paid in capital	19%	19%	18%	18%	18%	18%	18%	19%	19%
(Accumulated deficit) retained earnings	0%	1%	-1%	-1%	-2%	-2%	-3%	-3%	-3%
Accumulated other comprehensive income	0%	0%	0%	0%	0%	0%	0%	0%	0%
Noncontrolling interests	19%	20%	17%	17%	16%	16%	16%	16%	16%
EQUITY	**33%**	**33%**	**29%**	**28%**	**28%**	**27%**	**27%**	**27%**	**27%**
EQUITY + LIABILITIES	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Appendix 10: Common-Size Statement of Financial Position – ESH REIT

	2017	2018	2019	2020F	2021F	2022F	2023F	2024F	2025F
PP&E	96%	93%	90%	88%	92%	93%	93%	92%	90%
Restricted Cash	0%	0%	0%	0%	0%	0%	0%	0%	0%
Cash and Cash Equivalents	1%	5%	8%	10%	6%	4%	4%	6%	8%
Rents Receivable from Extended Stay America, Inc.	0%	0%	0%	0%	0%	0%	0%	0%	0%
Deferred Rents Receivable from Extended Stay America, Inc.	1%	0%	1%	1%	1%	1%	1%	1%	1%
Intangible Assets	0%	0%	0%	0%	0%	0%	0%	0%	0%
Goodwill	1%	1%	1%	1%	1%	1%	1%	1%	1%
Other Assets	1%	1%	1%	0%	1%	1%	1%	1%	1%
ASSETS	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Term Loan Facility Payable	32%	30%	16%	16%	16%	15%	15%	15%	15%
Senior Notes Payable	32%	34%	52%	51%	52%	52%	53%	53%	53%
Unearned rental revenues from Extended Stay America, Inc.	1%	1%	1%	0%	1%	1%	1%	1%	1%
Due to Extended Stay America, Inc., net	0%	0%	0%	2%	0%	0%	0%	0%	0%
Accounts Payable and Accrued Liabilities	1%	2%	2%	3%	2%	2%	2%	2%	2%
Deferred tax liabilities	0%	0%	0%	0%	0%	0%	0%	0%	0%
Financial lease liability	0%	0%	0%	0%	0%	0%	0%	0%	0%
LIABILITIES	**67%**	**67%**	**71%**	**72%**	**71%**	**71%**	**71%**	**71%**	**71%**
Common stock	0%	0%	0%	0%	0%	0%	0%	0%	0%
Additional paid in capital	28%	29%	27%	27%	27%	27%	27%	27%	27%
Preferred stock	0%	0%	0%	0%	0%	0%	0%	0%	0%
Retained earnings	5%	3%	2%	1%	2%	2%	1%	2%	2%
Accumulated other comprehensive income	0%	0%	0%	0%	0%	0%	0%	0%	0%
EQUITY	**33%**	**33%**	**29%**	**28%**	**29%**	**29%**	**29%**	**29%**	**29%**

Appendix 11: Common-Size Income Statement – ESA

	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
Room revenues	98%	97%	96%	95%	96%	96%	96%	96%	96%
Other hotel revenues	2%	2%	2%	3%	2%	2%	2%	2%	2%
Franchise and management fees	0%	0%	0%	1%	1%	1%	1%	1%	1%
=	100%	99%	99%	99%	99%	99%	99%	99%	99%
Other revenues from franchised and managed properties	0%	1%	1%	1%	1%	1%	1%	1%	1%
REVENUES	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Hotel operating expenses	46%	46%	48%	55%	48%	48%	48%	48%	48%
General & administrative expenses	7%	7%	8%	9%	8%	7%	7%	7%	6%
Depreciation & amortization	18%	16%	16%	20%	17%	17%	16%	16%	17%
Impairment of long-lived assets	2%	3%	0%	0%	0%	0%	0%	0%	0%
=	73%	73%	72%	84%	73%	72%	71%	71%	71%
Other Expenses from franchised and managed properties	0%	1%	2%	2%	2%	2%	1%	1%	1%
OPERATING EXPENSES	**73%**	**74%**	**74%**	**86%**	**74%**	**74%**	**72%**	**72%**	**73%**
GAIN ON SALE OF HOTEL PROPERTIES	1%	3%	0%	5%	2%	2%	2%	2%	2%
OTHER INCOME	0%	0%	0%	0%	0%	0%	0%	0%	0%
INCOME FROM OPERATIONS	**28%**	**30%**	**26%**	**19%**	**28%**	**29%**	**30%**	**30%**	**30%**
OTHER NON-OPERATING INCOME	0%	0%	0%	0%	0%	0%	0%	0%	0%
INTEREST EXPENSE	10%	10%	10%	12%	12%	11%	11%	11%	8%
INCOME BEFORE INCOME TAX EXPENSE	**18%**	**20%**	**16%**	**7%**	**16%**	**17%**	**19%**	**19%**	**22%**
INCOME TAX EXPENSE	5%	3%	2%	-2%	2%	2%	3%	3%	3%
NET INCOME	**13%**	**17%**	**14%**	**9%**	**14%**	**15%**	**16%**	**16%**	**19%**
EBITDA	**46%**	**46%**	**43%**	**39%**	**45%**	**45%**	**46%**	**46%**	**47%**

Appendix 12: Common-Size Income Statement – ESH REIT

	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
REVENUES - Rental revenues from Extended Stay America, Inc.	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Hotel operating expenses	13%	13%	13%	16%	14%	14%	14%	14%	14%
General & administrative expenses	2%	2%	2%	3%	2%	2%	2%	2%	2%
Depreciation & amortization	33%	31%	30%	36%	25%	25%	28%	27%	27%
Impairment of long-lived assets	2%	0%	0%	0%	0%	0%	0%	0%	0%
OPERATING EXPENSES	**51%**	**46%**	**45%**	**55%**	**41%**	**41%**	**44%**	**43%**	**43%**
GAIN ON SALE OF HOTEL PROPERTIES	1%	-1%	0%	9%	2%	2%	2%	2%	2%
OTHER INCOME	0%	0%	0%	0%	0%	0%	0%	0%	0%
INCOME FROM OPERATIONS	**51%**	**53%**	**55%**	**54%**	**61%**	**61%**	**58%**	**59%**	**59%**
OTHER NON-OPERATING INCOME	0%	0%	0%	0%	0%	0%	0%	0%	0%
INTEREST EXPENSE	19%	19%	20%	23%	20%	19%	21%	20%	14%
INCOME BEFORE INCOME TAX EXPENSE	**32%**	**35%**	**35%**	**31%**	**41%**	**41%**	**37%**	**39%**	**45%**
INCOME TAX EXPENSE	0%	0%	0%	0%	0%	0%	0%	0%	0%
NET INCOME	**31%**	**34%**	**35%**	**31%**	**41%**	**41%**	**36%**	**39%**	**44%**
EBITDA	**84%**	**84%**	**84%**	**90%**	**86%**	**86%**	**86%**	**86%**	**86%**

Appendix 13: Forecasting Assumptions – ESA

ESA	Forecast Assumption
Key Operating Metrics	
Owned hotels Franchised hotels	Normal trend function, in line with asset-light growth strategy 2020 YoY Growth (13.7%)
Occupancy rate ADR	Company forecasts - Appendix 15
CAPEX / D&A	
CAPEX	Investor Presentation forecasts $291 million in 2021 and 2022, due to increase in renovations, and $156 million for 2023-2025.
D&A	Appendix 16
Assets	
PP&E	(Previous year value) + (CAPEX) - (Dispositions + Impairments + D&A)
Intangible Assets	(Constant absolute growth equal to 2017-2020 average ($4.36 million)) - (D&A (estimated by the company at a yearly amount of $2.59 million through 2025))
Accounts Receivable	Indexed to Revenues
Deferred Tax Assets / (Liabilities)	Appendix 17
Other Assets	Historical average excluding extraordinary $74.0 million receivable for a tax refund in 2020
Liabilities	
Term Loan Facility Payable	(Previous year value) - (Expected yearly payments on term loan facilities of $6.31 million)
Senior Notes Payable	(Debt, net of deferred financing costs and debt discounts, Appendix 18) - (Term Loan Facility Payable) - (Revolving Credit Facility)
Revolving Credit Facility	Constant up to 2023. Corporation revolving credit facility has maturity date in September 2024
Accounts Payable and Accrued Liabilities	Indexed to operating expenses
Equity	
Common stock	(Common shares outstanding) * (Par value)
(Accumulated deficit) retained earnings	(Previous year value) + (Net Income) - (Accumulated deficit from repurchase of common stock and common distributions)
Accumulated other comprehensive income	Indexed to Accumulated Retained Earnings
Noncontrolling interests	Indexed to total ESA shareholders' equity
Common shares outstanding (#)	(Previous year value) - (Repurchase of Paired Shares)
Revenues	
Room revenues	(RevPAR) * (Owned rooms) * 365
Other hotel revenues	Indexed to room revenues
Franchise and management fees	Indexed to franchised hotels
Operating Expenses	
Hotel operating expenses General & administrative expenses	Indexed to owned hotels
Other Income	
Gain on sale of hotel properties Other income Other non-operating income	Historical average (2017-2020)
Net income attributable to noncontrolling interests	Net income * (1 - (Noncontrolling interests) / (Total Equity))
Other Expenses	
Interest expense	Appendix 19
Income tax expense	Appendix 20
Cash Flows - Operating	
Foreign currency transaction (gain) loss Amortization and write-off of deferred financing costs and debt discount Loss on disposal of property & equipment Equity-based compensation	Historical average (2017-2020)
Deferred income tax (benefit) expense	Indexed to Income tax expense
Cash Flows - Investment	
Purchases of property & equipment Acquisition of hotel properties Development in process payments Payments for intangible assets	Indexed to CAPEX
Proceeds from insurance and related recoveries	Historical average (2017-2020)
Cash Flows - Financing	
Principal payments on term loan facility Payments on revolving credit facilities Principal payments on finance leases	Contractual obligations reported in the company's 2020 10-K Report
Tax withholdings related to restricted stock unit settlements	Historical average (2017-2020)
Repurchase of Paired Shares	Appendix 21
Corporation common distributions	Indexed to Net Income Attributable to ESA Common Shareholders
ESH REIT common distributions	Indexed to ESH REIT's Net Income
Changes in cash, cash equivalents and restricted cash due to changes in foreign currency exchange rates	Historical average (2017-2020)

Appendix 14: Forecasting Assumptions – ESH REIT

ESH REIT	Forecast Assumption
CAPEX / D&A	
CAPEX	Indexed to ESA's CAPEX
D&A	Indexed to CAPEX
Assets	
PP&E	Indexed to ESA's PP&E
Rents Receivable from Extended Stay America, Inc. Deferred Rents Receivable from Extended Stay America, Inc.	Historical average (2017-2020)
Intangible Assets	(Constant relative growth equal to 2020 (1.86%)) - (D&A (estimated by the company at a yearly amount of $1.25 million through 2025))
Other Assets	Historical average (2017-2020)
Liabilities	
Term Loan Facility Payable Senior Notes Payable	Values identical to ESA
Unearned rental revenues from Extended Stay America, Inc.	Historical average (2017-2020)
Due to Extended Stay America, Inc., net	Historical average (2017-2020), excluding extraordinary distribution payable of $86.7 million in 2020, typically repaid within 30 days.
Deferred tax liabilities	Historical average (2017-2020)
Financial lease liability	Values identical to ESA
Revenues	
Rental revenues from Extended Stay America, Inc.	Appendix 22
Operating Expenses	
Hotel operating expenses General & administrative expenses	Indexed to Revenues
Other Expenses	
Interest expense	Appendix 23
Income tax expense	Appendix 24
Cash Flows - Operating	
Loss on disposal of property & equipment	Values identical to ESA
Cash Flows - Financing	
Principal payments on finance leases	Values identical to ESA
Repurchase of common stock Issuance of Class B common stock related to issuance of Paired Shares	Historical average (2017-2020)
Common distributions	Indexed to Net Income

Appendix 15: Forecasting Assumptions – Occupancy Rates and ADR

Projections	2021F	2022F	2023F	2024F	2025F	Observations
Occupancy Rate	77%	75%	77%	77%	77%	
ADR ($)	63.00	69.00	74.00	76.00	78.00	Source: Company Projections
RevPAR ($)	48.51	51.75	56.98	58.52	60.06	

Appendix 16: Forecasting Assumptions – D&A (ESA)

	2021F	2022F	2023F	2024F	2025F	Comments
D&A	**180 146**	**186 782**	**188 522**	**191 125**	**194 034**	
PP&E	142 161	148 797	150 537	153 140	156 049	Average historical depreciation rate (3%)
Intangibles	2 590	2 590	2 590	2 590	2 590	Estimated future amortization expense, mentioned in 2020 10-K Form
Dispositions	35 395	35 395	35 395	35 395	35 395	Constant

Appendix 17: Forecasting Assumptions – Deferred Tax Assets (ESA)

($ thousand)	2021F	2022F	2023F	2024F	2025F	Comments
Net operating loss carryforwards	5 539	5 539	5 539	5 539	5 539	Historical average (2017-2020)
Accruals and allowances	17 170	17 170	17 170	17 170	17 170	
Lease liabilities	310	310	310	310	310	
Equity-based compensation	1 011	979	962	944	941	Indexed to Total Equity
Depreciable property	0	0	0	0	0	Constant
Other	504	504	504	504	504	Historical average (2017-2020)
= Deferred tax assets	**24 535**	**24 503**	**24 485**	**24 467**	**24 465**	
Valuation allowance	(5 539)	(5 539)	(5 539)	(5 539)	(5 539)	Symmetrical to NOLC. In 2020, the company recorded $13.4 million of tax NOLCs and concluded that it is more likely than not that these will not be realized.
= Net deferred tax assets	**18 995**	**18 963**	**18 946**	**18 928**	**18 925**	
Depreciable property	0	0	0	0	0	Constant
Undistributed ESH REIT income	(13 799)	(14 311)	(11 456)	(13 201)	(14 844)	Indexed to ESH REIT's Net Income
Right-of-use assets	(302)	(302)	(302)	(302)	(302)	Constant
Intangible assets	(2 752)	(2 888)	(3 024)	(3 160)	(3 295)	Indexed to Total Intangible Assets
Prepaid expenses	(859)	(859)	(859)	(859)	(859)	Historical average (2017-2020)
Other	(10)	(10)	(10)	(10)	(10)	
= Deferred tax liabilities	**(17 722)**	**(18 371)**	**(15 651)**	**(17 532)**	**(19 310)**	
Total net deferred tax assets (liabilities)	**1 273**	**593**	**3 295**	**1 396**	**(385)**	

Appendix 18: Forecasting Assumptions – Debt (ESA)

($ thousand)	2021F	2022F	2023F	2024F	2025F	Comments
Debt, net of deferred financing costs and debt discounts - beginning of year	2 683 622	2 684 843	2 686 064	2 687 285	2 638 741	Previous year ending value
Proceeds from revolving credit facilities	0	0	0	0	0	Constant
Proceeds from senior notes	0	0	0	0	0	
Amortization and write-off of deferred financing costs and debt discount	7 530	7 530	7 530	7 530	7 530	
Payments on term loan facilities	(6 309)	(6 309)	(6 309)	(6 309)	(6 309)	
Payments of deferred financing costs	0	0	0	0	0	
Payments on revolving credit facilities	0	0	0	(49 765)	0	Contractual obligations - Page 71, 2020 10-k Report
Debt, net of deferred financing costs and debt discounts - end of year	**2 684 843**	**2 686 064**	**2 687 285**	**2 638 741**	**2 639 962**	

Appendix 19: Forecasting Assumptions – Interest Expense (ESA)

($ thousand)	2021F	2022F	2023F	2024F	2025F	Comments
Contractual interest	118 156	117 499	117 362	116 920	81 755	Yearly contractual obligations - Company 2020 10-K Report
Amortization of deferred financing costs and debt discount	8 100	8 100	8 100	8 100	8 100	Historical average (2017-2020)
Debt extinguishment and other costs	3 896	3 896	3 896	3 896	3 896	
Interest Income	(2 416)	(2 416)	(2 416)	(2 416)	(2 416)	
Total	**127 736**	**127 079**	**126 942**	**126 500**	**91 335**	

Appendix 20: Forecasting Assumptions – Income Tax Expense (ESA)

($ thousand)	2021F	2022F	2023F	2024F	2025F	Comments
Tax at statutory rate	37 448	40 453	48 236	47 317	53 409	(Income Before Tax Expense) * (US Corporate Income Tax Rate (21% (35% prior to 2018)))
State income tax	5 172	5 587	6 662	6 535	7 376	Indexed to Income Before Income Tax Expense
Foreign income tax rate differential	0	0	0	0	0	Constant
Nontaxable ESH REIT income	(23 141)	(24 001)	(19 212)	(22 139)	(24 894)	Indexed to ESH REIT's Tax at statutory rate
Equity-based compensation	(38)	(38)	(38)	(38)	(38)	Indexed to Equity-based compensation (CF Statement)
Other permanent differences	863	863	863	863	863	Constant
Estimate of future nontaxable distributions from ESH REIT	0	0	0	0	0	Constant
Change in ESH REIT temporary differences	1 306	1 355	1 085	1 250	1 405	Indexed to ESH REIT's Net Income
Change in deferred tax rate	0	0	0	0	0	Constant
Valuation allowance	3	3	3	3	3	Constant
Tax credits	(639)	(639)	(639)	(639)	(639)	Historical average (2017-2020)
Benefit of NOL carryback to higher rate year	0	0	0	0	0	Constant excluding 2020 extraordinary event
Other - net	679	734	875	859	969	Indexed to Tax at statutory rate
Income tax expense - net	**21 655**	**24 317**	**37 835**	**34 010**	**38 454**	
Effective income tax rate	**12%**	**13%**	**16%**	**15%**	**15%**	

Appendix 21: Forecasting Assumptions – Repurchase of Paired Shares (ESA)

($ thousand)	2021F	2022F	2023F	2024F	2025F	Comments
Common Stock						
Shares (#)	(4 797)	(4 797)	(4 797)	(4 797)	(4 797)	Historical average (2017-2020)
Amount	(48)	(48)	(48)	(48)	(48)	(Shares) * (Par value)
Retained Earnings (Accumulated Deficit)	(49 150)	(49 150)	(49 150)	(49 150)	(49 150)	Historical average (2017-2020)
Total Extended Stay America, Inc. Shareholders' Equity	**(49 198)**	**(49 198)**	**(49 198)**	**(49 198)**	**(49 198)**	
Non-controlling Interests	(28 186)	(28 186)	(28 186)	(28 186)	(28 186)	ESH REIT's Repurchase of common stock
Total Equity	**(77 384)**	**(77 384)**	**(77 384)**	**(77 384)**	**(77 384)**	

Appendix 22: Forecasting Assumptions – Rental Revenues from ESA (ESH REIT)

($ thousand)	2021F	2022F	2023F	2024F	2025F	Comments
Leases (#)	3	3	3	3	3	Constant
Fixed Rental Revenues	483 113	495 473	423 106	466 409	466 409	Future Fixed Rental Payments (2020-2023) - Company 2020 10-K Report. Constant 2017-2023 average for following years
Variable Rental Revenues	156 118	160 889	170 921	169 144	167 031	Historical average (2017-2020)
Total Revenues	**639 231**	**656 362**	**594 027**	**635 553**	**633 440**	

Appendix 23: Forecasting Assumptions – Interest Expense (ESH REIT)

($ thousand)	2021F	2022F	2023F	2024F	2025F	Comments
Contractual interest	117 883	117 228	117 091	116 650	81 566	Indexed to ESA's Contractual interest
Amortization of deferred financing costs and debt discount	7 980	7 980	7 980	7 980	7 980	
Debt extinguishment and other costs	3 745	3 745	3 745	3 745	3 745	Historical average
Interest Income	(1 728)	(1 728)	(1 728)	(1 728)	(1 728)	
Total	**127 880**	**127 225**	**127 088**	**126 647**	**91 563**	

Appendix 24: Forecasting Assumptions – Income Tax Expense (ESH REIT)

($ thousand)	2021F	2022F	2023F	2024F	2025F	Comments
Tax at statutory rate	55 027	57 072	45 684	52 644	59 196	(Income Before Income Tax Expense) * (US Corporate Income Tax Rate (21% (35% prior to 2018)))
State income tax	109	113	90	104	117	Indexed to Income Before Income Tax Expense
Foreign income tax rate differential	0	0	0	0	0	Constant
Nontaxable ESH REIT income	(53 760)	(55 759)	(44 633)	(51 432)	(57 834)	Indexed to Tax at statutory rate
Other permanent differences	(47)	(47)	(47)	(47)	(47)	Constant
Other - net	0	0	0	0	0	Constant
Income tax expense - net	**1 328**	**1 379**	**1 095**	**1 269**	**1 432**	
Effective income tax rate	**1%**	**1%**	**1%**	**1%**	**1%**	

Appendix 25: WACC Assumptions – ESA

ESA	2021F	2022F	2023F	2024F	2025F	Terminal	Observations
Re	**10.7%**	**10.8%**	**10.7%**	**10.8%**	**10.8%**	**10.8%**	
Rf	1.96%	1.96%	1.96%	1.96%	1.96%	1.96%	FRED - Last 5-year monthly average yield - US 10 Year T-Bond
MRP	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	Fernandez - Survey (2021)
Adjusted Beta Unlevered			0.84				Appendix 27
Adjusted Beta Levered	1.59	1.61	1.59	1.61	1.60	1.60	Unlevered Beta*(1+(1-Tax Rate)*(Debt/Equity))
After-Tax Rd	**6.0%**	**6.0%**	**5.0%**	**5.1%**	**3.6%**	**5.1%**	
Cost of Debt	6.8%	6.8%	6.0%	6.0%	4.3%	6.0%	Appendix 29
Tax Rate	12.1%	12.6%	16.5%	15.1%	15.1%	15.1%	Income Tax Expense / Income Before Income Tax Expense
WACC	**8.3%**	**8.3%**	**7.8%**	**7.8%**	**7.1%**	**7.8%**	
P/B	2.38	2.38	2.38	2.38	2.38	2.38	Average P/B Ratio (2017-2020)
MV of Equity ($M)	2635	2552	2507	2459	2453	2453	Book Value of Equity * Average Historical P/B
MV of Debt ($M)	2676	2677	2681	2637	2620	2620	Appendix 31
E/(D+E)	50%	49%	48%	48%	48%	48%	
D/(D+E)	50%	51%	52%	52%	52%	52%	
D/E	1.0	1.0	1.1	1.1	1.1	1.1	

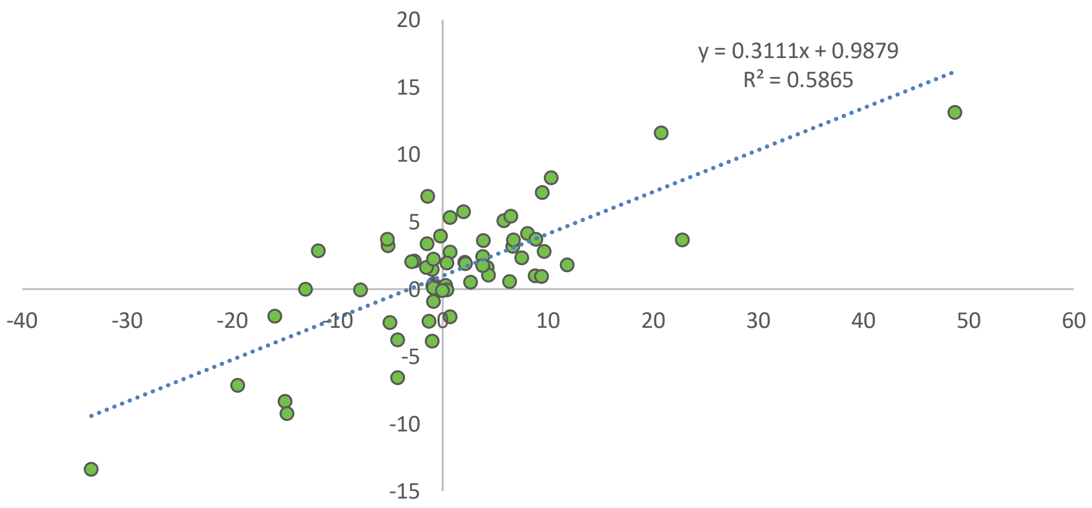
Appendix 26: WACC Assumptions – ESH REIT

ESH REIT	2021F	2022F	2023F	2024F	2025F	Terminal	Observations
Re	**10.7%**	**10.6%**	**10.7%**	**10.7%**	**10.6%**	**10.6%**	
Rf	1.96%	1.96%	1.96%	1.96%	1.96%	1.96%	FRED - Last 5-year monthly average yield - US 10 Year T-Bond
MRP	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	Fernandez - Survey
Adjusted Beta Unlevered			0.82				Appendix 27
Adjusted Beta Levered	1.59	1.57	1.60	1.59	1.57	1.57	Unlevered Beta*(1+(1-Tax Rate)*(Debt/Equity))
After-Tax Rd	**6.0%**	**6.0%**	**6.0%**	**6.0%**	**4.2%**	**5.6%**	
Cost of Debt	6.0%	6.0%	6.0%	6.0%	4.3%	5.7%	Appendix 30
Tax Rate	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	Income Tax Expense / Income Before Income Tax Expense
WACC	**8.4%**	**8.4%**	**8.4%**	**8.4%**	**7.6%**	**8.2%**	
P/B	2.49	2.49	2.49	2.49	2.49	2.49	Average P/B Ratio (2017-2020)
MV of Equity ($M)	2792	2852	2771	2783	2872	2872	Book Value of Equity * Average Historical P/B
MV of Debt ($M)	2633	2632	2634	2636	2620	2620	Appendix 32
E/(D+E)	51%	52%	51%	51%	52%	52%	
D/(D+E)	49%	48%	49%	49%	48%	48%	
D/E	0.94	0.92	0.95	0.95	0.91	0.91	

Appendix 27: Beta Assumptions

Beta (β)		Observations
Pure-Play		
Peers	1.30	Bloomberg - average levered β from peers
Industry	1.87	Levered β based on Damodaran's average unlevered β corrected for cash by industry (Hotel & REIT average)
Regression		
Raw	1.89	Raw β obtained by regressing ESA's paired share against a market index using the 60 most recent monthly observations (5Y). Russell 1000 was the selected index (R2=0,59), over the S&P500 (R2=0,58) and the Dow Jones Industrial Average (R2=0,58)
Adjusted	**1.59**	**Blume adjustment based on the raw β**

Appendix 28: STAY Regression – Russell 1000 – 5Y Monthly Observations



Appendix 29: Cost of Debt - ESA

Cost of Debt - ESA						Observations
Interest Expense ($ Million)	**2021F**	**2022F**	**2023F**	**2024F**	**2025F**	
Interest Expense ($ Million)	128	127	127	126	91	
Debt ($ Million)	2685	2686	2687	2639	2640	
Cost of Debt	**4.76%**	**4.73%**	**4.72%**	**4.79%**	**3.46%**	
Credit Default Spread						
Rf	1.96%	1.96%	1.96%	1.96%	1.96%	
Operating Income ($ Million)	306	319	356	351	345	
Interest Expense ($ Million)	128	127	127	126	91	
Interest Coverage Ratio	2.39	2.51	2.81	2.78	3.78	
Synthetic Rating	B2/B	B2/B	B1/B+	B1/B+	Ba1/BB+	Damodaran Data Set
Company Default Spread	4.9%	4.9%	4.1%	4.1%	2.3%	
Cost of Debt	**6.82%**	**6.82%**	**6.01%**	**6.01%**	**4.27%**	**Rf + Company Default Spread**

Appendix 30: Cost of Debt – ESH REIT

Cost of Debt - ESH REIT						Observations
Interest Expense ($ Million)	**2021F**	**2022F**	**2023F**	**2024F**	**2025F**	
Interest Expense ($ Million)	128	127	127	127	92	
Debt ($ Million)	2635	2636	2638	2639	2640	
Cost of Debt	**4.85%**	**4.83%**	**4.82%**	**4.80%**	**3.47%**	
Credit Default Spread						
Rf	1.96%	1.96%	1.96%	1.96%	1.96%	
Operating Income ($ Million)	390	399	344	377	373	
Interest Expense ($ Million)	128	127	127	127	92	
Interest Coverage Ratio	3.05	3.13	2.71	2.98	4.07	
Synthetic Rating	B1/B+	B1/B+	B1/B+	B1/B+	Ba1/BB+	Damodaran Data Set
Company Default Spread	4.1%	4.1%	4.1%	4.1%	2.3%	
Cost of Debt	**6.01%**	**6.01%**	**6.01%**	**6.01%**	**4.27%**	**Rf + Company Default Spread**

Appendix 31: Market Value of Debt – ESA

	2021F	2022F	2023F	2024F	2025F	Observations
Term Loan Facility	**Dec-21**	**Dec-22**	**Dec-23**	**Dec-24**	**Dec-25**	
ESH REIT Term Loan Facility	0.97	0.76	0.56	0.35	0.15	Weighted Maturity (Years) based on each line item's Stated Amount and Maturity
Senior Notes						
2025 Notes	1.41	0.98	0.56	0.14	-	
2027 Notes	1.40	1.16	0.91	0.67	0.43	
Revolving Credit Facilities						
ESH REIT Revolving Credit Facility	0.31	0.20	0.08	-	-	
Corporation Revolving Credit Facility	0.04	0.03	0.01	-	-	
Weighted Average Maturity (Years)	**4.12**	**3.12**	**2.12**	**1.16**	**0.57**	
Interest Expense ($M)	**127.74**	**127.08**	**126.94**	**126.50**	**91.33**	
Total Debt ($M)	**2685**	**2686**	**2687**	**2639**	**2640**	
Current Cost of Debt	**4.8%**	**4.8%**	**4.8%**	**4.8%**	**4.8%**	
Market Value of Debt ($M)	**2676**	**2677**	**2681**	**2637**	**2620**	Assuming the total debt as a single coupon equal to the value of interest expenses on the total debt and the maturity equal to the weighted average maturity of the debt. Interest Expense*((1-(1/(1+Cost of Debt)^Years))/Cost of Debt + Total Debt/(1+Cost of Debt)^Years

Appendix 32: Market Value of Debt – ESH REIT

	2021F	2022F	2023F	2024F	2025F	Observations
Term Loan Facility	**Dec-21**	**Dec-22**	**Dec-23**	**Dec-24**	**Dec-25**	
ESH REIT Term Loan Facility	0.96	0.75	0.55	0.35	0.15	Weighted Maturity (Years) based on each line item's Stated Amount and Maturity
Senior Notes						
2025 Notes	1.39	0.98	0.56	0.14	-	
2027 Notes	1.39	1.15	0.91	0.66	0.42	
Revolving Credit Facilities						
ESH REIT Revolving Credit Facility	0.31	0.19	0.08	-	-	
Unsecured Intercompany Facility						
ESH REIT Intercompany Facility	0.11	0.09	0.07	-	-	
Weighted Average Maturity (Years)	**4.16**	**3.16**	**2.16**	**1.15**	**0.57**	
Interest Expense ($M)	**127.88**	**127.22**	**127.09**	**126.65**	**91.56**	
Total Debt ($M)	**2635**	**2636**	**2638**	**2639**	**2640**	
Current Cost of Debt	**4.9%**	**4.9%**	**4.9%**	**4.9%**	**4.9%**	
Market Value of Debt ($M)	**2633**	**2632**	**2634**	**2636**	**2620**	Assuming the total debt as a single coupon equal to the value of interest expenses on the total debt and the maturity equal to the weighted average maturity of the debt. Interest Expense*((1-(1/(1+Cost of Debt)^Years))/Cost of Debt + Total Debt/(1+Cost of Debt)^Years

Appendix 33: Stable Growth Model (ESA)

	2018	2019	2020	2021F	2022F	2023F	2024F	2025F	Terminal Period
($ thousand)									
CAPEX	209 274	261 294	192 731	291 000	291 000	156 000	156 000	156 000	1 713 299
D&A	209 329	197 400	206 013	180 146	186 782	188 522	191 125	194 034	1 553 351
Δ NWC	(21 153)	(9 789)	32 263	(12 321)	(5 454)	(11 342)	1 813	2 166	(23 817)
EBIT	378 702	322 217	201 889	306 061	319 711	356 637	351 817	345 661	2 582 695
Tax Rate	17%	15%	-34%	12%	13%	16%	15%	15%	15%
Reinvestment Rate	**7%**	**27%**	**-17%**	**46%**	**39%**	**-7%**	**-12%**	**-14%**	**8%**
ROE	**27%**	**24%**	**14%**	**24%**	**27%**	**31%**	**31%**	**35%**	**26%**
g									**2.2%**

Appendix 34: Stable Growth Model (ESH REIT)

	2018	2019	2020	2021F	2022F	2023F	2024F	2025F	Terminal Period
($ thousand)									
CAPEX	203 832	254 883	188 072	284 303	284 303	152 410	152 410	152 410	1 672 624
D&A	207 313	193 798	202 263	159 789	165 064	167 175	169 286	171 396	1 436 085
Δ NWC	(30 751)	8 551	(86 164)	90 163	(2 135)	7 769	(5 175)	263	(17 480)
EBIT	355 671	355 217	304 527	389 912	398 998	344 631	377 332	373 450	2 899 738
Tax Rate	0%	0%	0%	1%	1%	1%	1%	1%	1%
Reinvestment Rate	**8%**	**15%**	**24%**	**9%**	**31%**	**-7%**	**-3%**	**-5%**	**9%**
ROE	**19%**	**20%**	**16%**	**23%**	**24%**	**19%**	**22%**	**24%**	**21%**
g									**1.8%**

Appendix 35: FCFF Approach (ESA)

($ thousand)	2021F	2022F	2023F	2024F	2025F	Terminal
Net Income	156 671	168 316	191 860	191 307	215 872	
Tax Rate	12%	13%	16%	15%	15%	
After-tax Interest Expense	112 224	111 037	106 032	107 405	77 525	
Depreciations & Amortizations	180 146	186 782	188 522	191 125	194 034	
Δ NWC	(12 321)	(5 454)	(11 342)	1 813	2 166	
CAPEX	291 000	291 000	156 000	156 000	156 000	
WACC	**8.3%**	**8.3%**	**7.8%**	**7.8%**	**7.1%**	**7.8%**
g						**2.2%**
FCFF	**170 362**	**180 589**	**341 757**	**332 023**	**329 265**	**5 351 130**

PV of FCFF (June 15th, 2021)	1 100 670
PV of Terminal Value (June 15th, 2021)	3 921 778
Enterprise Value	**5 022 448**
Net Debt	2 349 432
Equity Value	**2 673 015**
Shares outstanding (# thousand)	177 561
Share Value June 15th, 2021 ($)	**15.05**

Appendix 36: FCFF Approach (ESH REIT)

($ thousand)	2021F	2022F	2023F	2024F	2025F	Terminal
Net Income	260 703	270 393	216 448	249 417	280 454	
Tax Rate	1%	1%	1%	1%	1%	
After-tax Interest Expense	127 232	126 579	126 449	126 006	91 098	
Depreciations & Amortizations	159 789	165 064	167 175	169 286	171 396	
Δ NWC	90 163	(2 135)	7 769	(5 175)	263	
CAPEX	284 303	284 303	152 410	152 410	152 410	
WACC	**8.4%**	**8.4%**	**8.4%**	**8.4%**	**7.6%**	**8.2%**
g						**1.8%**
FCFF	**173 259**	**279 869**	**349 893**	**397 474**	**390 276**	**5 475 915**

PV of FCFF (June 15th, 2021)	1 276 764
PV of Terminal Value (June 15th, 2021)	3 933 764
Enterprise Value	**5 210 528**
Net Debt	2 415 706
Equity Value	**2 794 821**
Shares outstanding (# thousand)	428 054
Share Value June 15th, 2021 ($)	**6.53**

Appendix 37: APV Approach (ESA)

($ thousand)	2021F	2022F	2023F	2024F	2025F	Terminal
FCFF	**170 362**	**180 589**	**341 757**	**332 023**	**329 265**	**5 351 130**
Interest Expense	127 736	127 079	126 942	126 500	91 335	
Interest Tax Shield	**15 511**	**16 042**	**20 910**	**19 094**	**13 810**	**286 506**
WACC (Pre-tax)	**8.7%**	**8.8%**	**8.3%**	**8.3%**	**7.4%**	**8.3%**
PV of FCFF (June 15th, 2021)	1 088 688					
PV of Terminal Value (June 15th, 2021)	4 019 752					
Unlevered Enterprise Value	**5 108 440**					
PV of Interest Tax Shield	70 359					
PV of Terminal ITS	199 447					
Financing Side Effects	269 806					
Enterprise Value	**5 378 246**					
Net Debt	2 349 432					
Equity Value	**3 028 814**					
Shares outstanding (# thousand)	177 561					
Share Value June 15th, 2021 ($)	**17.06**					

Appendix 38: APV Approach (ESH REIT)

($ thousand)	2021F	2022F	2023F	2024F	2025F	Terminal
FCFF	**173 259**	**279 869**	**349 893**	**397 474**	**390 276**	**5 475 915**
Interest Expense	127 880	127 225	127 088	126 647	91 563	
Interest Tax Shield	**648**	**646**	**639**	**641**	**465**	**7 424**
WACC (Pre-tax)	**8.4%**	**8.4%**	**8.4%**	**8.4%**	**7.6%**	**8.2%**
PV of FCFF (June 15th, 2021)	1 276 335					
PV of Terminal Value (June 15th, 2021)	3 823 643					
Unlevered Enterprise Value	**5 099 978**					
PV of Interest Tax Shield	2 526					
PV of Terminal ITS	5 184					
Financing Side Effects	7 710					
Enterprise Value	**5 107 688**					
Net Debt	2 415 706					
Equity Value	**2 691 981**					
Shares outstanding (# thousand)	428 054					
Share Value June 15th, 2021 ($)	**6.29**					

Appendix 39: FCFE Approach (ESA)

($ thousand)	2021F	2022F	2023F	2024F	2025F	Terminal
FCFF	170 362	180 589	341 757	332 023	329 265	
After-tax Interest Expense	112 224	111 037	106 032	107 405	77 525	
Net Borrowing	1 221	1 221	1 221	(48 544)	1 221	
Preferred Dividend	16	16	16	16	16	
g						**2.2%**
Re	**10.7%**	**10.8%**	**10.7%**	**10.8%**	**10.8%**	**10.8%**
FCFE	**59 342**	**70 757**	**236 930**	**176 058**	**252 946**	**2 333 180**
PV of FCFE (June 15th, 2021)	580 857					
PV of Terminal Value (June 15th, 2021)	1 465 944					
Equity Value	**2 046 801**					
Shares outstanding (# thousand)	177 561					
Share Value June 15th, 2021 ($)	**11.53**					

Appendix 40: FCFE Approach (ESH REIT)

($ thousand)	2021F	2022F	2023F	2024F	2025F	Terminal
FCFF	173 259	279 869	349 893	397 474	390 276	
After-tax Interest Expense	127 232	126 579	126 449	126 006	91 098	
Net Borrowing	1 221	1 221	1 221	1 221	1 221	
Preferred Dividend	16	16	16	16	16	
g						**1.8%**
Re	**10.7%**	**10.6%**	**10.7%**	**10.7%**	**10.6%**	**10.6%**
FCFE	**47 232**	**154 494**	**224 649**	**272 673**	**300 382**	**2 819 106**
PV of FCFE (June 15th, 2021)	771 928					
PV of Terminal Value (June 15th, 2021)	1 886 235					
Equity Value	**2 658 163**					
Shares outstanding (# thousand)	428 054					
Share Value June 15th, 2021 ($)	**6.21**					

Appendix 41: Peer Multiples

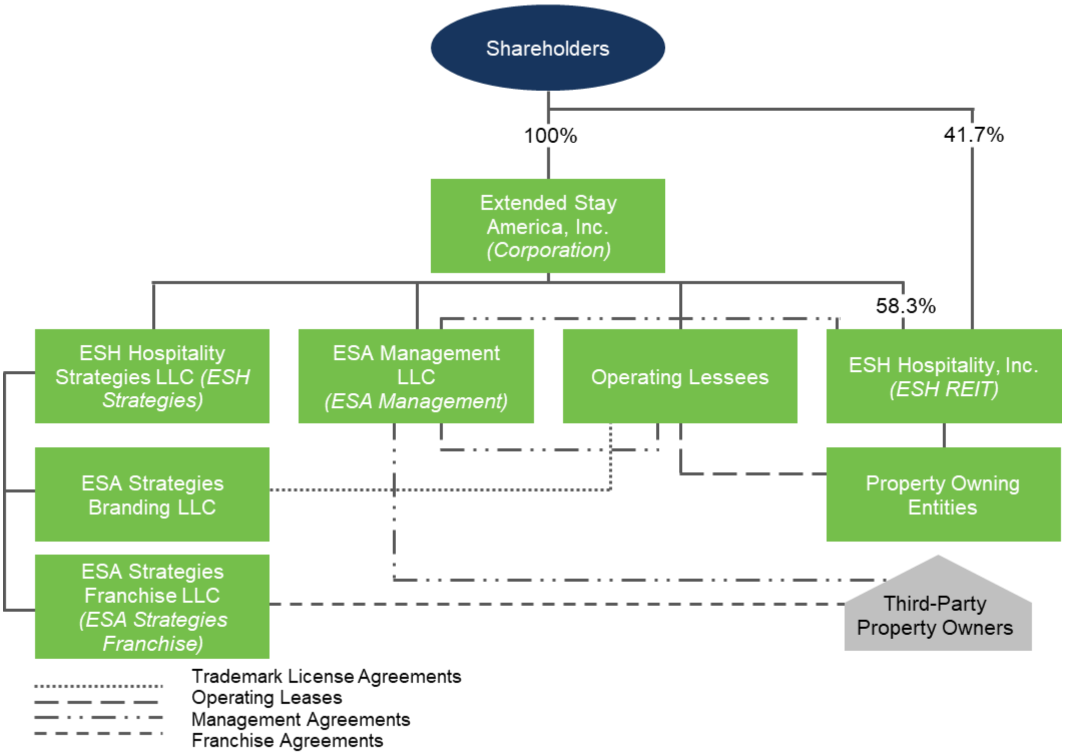
		EV Multiples			Price Multiples		
	Name	**EV/EBITDA**	**EV/Sales**	**EV/EBIT**	**P/E**	**P/S**	**P/B**
ESA	Hyatt Hotels Corp	11.2	12.6	21.2	36.7	10.1	2.6
	Choice Hotels	16.7	8.7	17.9	49.3	7.8	-
	Wyndham Hotels & Resorts Inc.	12.8	8.6	14.9	106.8	6.6	6.4
	Marriott Vacations Worldwide Corp.	8.8	5.3	11.0	96.5	3.2	2.2
	Hilton Grand Vacations Inc.	13.9	8.0	17.0	12.3	6.5	10.0
	AVERAGE	**12.7**	**8.6**	**16.4**	**60.3**	**6.8**	**5.3**
	MEDIAN	**12.8**	**8.6**	**17.0**	**49.3**	**6.6**	**4.5**
ESH REIT	Host Hotels & Resorts Inc.	11.3	10.7	19.5	17.9	7.6	1.9
	MGM Growth Properties LLC	15.3	14.4	27.9	72.2	7.1	2.1
	Park Hotels & Resorts Inc.	10.8	13.1	16.6	12.4	6.7	1.0
	RLJ Lodging Trust	10.6	9.5	21.0	19.6	4.9	1.1
	Xenia Hotels & Resorts Inc.	12.3	8.0	-	21.2	5.3	1.4
	AVERAGE	**12.1**	**11.1**	**21.3**	**28.7**	**6.3**	**1.5**
	MEDIAN	**11.3**	**10.7**	**20.2**	**19.6**	**6.7**	**1.4**

Appendix 42: Relative Valuation – EV and Price Multiples

EV Multiples		
EV/EBITDA	**ESA**	**ESH REIT**
Peers' EV/EBITDA (x)	12.8	11.3
2021F EBITDA ($M)	486	550
Enterprise Value ($M)	**6208**	**6191**
(+) Non-operational assets ($M)	113	116
(-) Non-operational liabilities ($M)	-	-
(+) Cash and Equivalents ($M)	335	219
(-) Debt (Gross) ($M)	(2685)	(2635)
(-) Non-controlling interest ($M)	(451)	-
Equity Value ($M)	**3520**	**3891**
# Paired Shares Outstanding	170	170
Share Value ($)	**20.73**	**22.91**
Paired Share Value ($)	**21.82**	
EV/Sales	**ESA**	**ESH REIT**
Peers' EV/Sales (x)	8.6	10.7
2021F Sales ($M)	1082	639
Enterprise Value ($M)	**9280**	**6833**
Equity Value ($M)	**6593**	**4534**
# Paired Shares Outstanding	170	170
Share Value ($)	**38.82**	**26.70**
Paired Share Value ($)	**32.76**	
EV/EBIT	**ESA**	**ESH REIT**
Peers' EV/EBIT (x)	17.0	20.2
2021F EBIT ($M)	306	390
Enterprise Value ($M)	**5213**	**7891**
Equity Value ($M)	**2526**	**5592**
# Paired Shares Outstanding	170	170
Share Value ($)	**14.87**	**32.93**
Paired Share Value ($)	**23.90**	

Price Multiples		
P/E	**ESA**	**ESH REIT**
Peers' P/E (x)	49.3	19.6
2021F EPS ($)	0.36	0.62
Share Value ($)	**17.94**	**12.05**
Paired Share Value ($)	**15.00**	
P/S	**ESA**	**ESH REIT**
Peers' P/S (x)	6.6	6.7
2021F Sales ($M)	1082	639
Equity Value	**7139**	**4270**
# Paired Shares Outstanding	170	170
Share Value ($)	**42.04**	**25.14**
Paired Share Value ($)	**33.59**	
P/B	**ESA**	**ESH REIT**
Peers' P/B (x)	4.5	1.4
2021F Equity Book Value ($M)	1106	1121
Equity Value	**5005**	**1525**
# Paired Shares Outstanding	170	170
Share Value ($)	**29.47**	**8.98**
Paired Share Value ($)	**19.23**	

Appendix 43: Corporate Structure



Source: Company Data

Appendix 44: CSR - KPI's and ESG Status

KPI's	Energy & Emissions	Water
Goals	• 22% energy/water usage/cost reductions • 5-10% of energy from renewable resources • Disclose carbon emissions data and progress	• 22% energy/water usage/cost reductions • Implement high efficiency laundry equipment and processes • Complete installation of low flow guest rooms water fixtures
Progress	From 2011-2019, over $31 million were invested on energy and water conservation projects across the company's portfolio.	489,873,006 gallons of water saved in 2019, which represents a 23% reduction from the company's baseline year of 2011.
Key Strategies	• Energy efficiency projects (LED lighting, HVAC and boiler controls, etc.) • Renewable energy investments • Energy efficiency investments (Battery storage)	• Water efficiency projects (low flow fixtures, water meter monitoring, etc.) • Landscape management (smart irrigation controls)
Milestones	• 2019 energy expense savings of $5,980,185 compared to baseline of 2011 • 2019 electricity savings of 52,134,152 kwh compared to baseline of 2011 • 2019 natural gas savings of 103,318 MMBtu compared to baseline of 2011 • Installation of interior and exterior LED bulbs/ fixtures across hundreds of hotels	• 2019 water expense savings of $4,105,216 compared to baseline of 2011 • 2019 water savings of 489,873,006 gallons compared to baseline of 2011 • New water fixtures for all hotels meet the strictest water requirements (California)
Challenges & Opportunities	• Achieve 2025 goal to maintain trajectory in energy reduction projects • Expand renewable energy purchasing	• Continue to implement water efficiency measures as the company's portfolio grows • Prioritize properties with greatest water consumption and exposure to local water supply risks

Source: Company Data

TOPIC	STATUS	COMMENTS
ENVIRONMENTAL		
Energy & Electricity		
Total Electricity Consumed (kwh)	299 697 262	
Total Natural Gas Consumed (MMBtu)	599 907	
Percentage Grid Electricity	100%	
Percentage Renewable Energy	0%	The company is committed to sourcing 5-10% of its energy consumption through renewable energy avenues by 2025.
Energy Usage Savings - Electricity	15%	The company saves approximately 52,134,152 kwh per year through its energy conservation projects.
Energy Usage Savings - Natural Gas	15%	The company saves approximately 103,318 MMBtu per year through its energy conservation projects.
Water		
Total water consumed (gallons)	1 617 317 976	
Water consumed - percentage of each region with High or Extremely High water stress	29%	
Water usage savings	23%	The company saves approximately 489,873,006 gallons of water per year through its water conservation projects.
Number of lodging facilities in 100-year flood zones	35	
Waste		
Hotel renovation waste recycled / donated (tons)	381	The company works with local resources to find opportunities to recycle and/or donate material from hotel renovations in order to minimize the amount going to landfills.
Hotel renovation waste recycled / donated (cubic yards)	6 881	
SOCIAL		
Diversity & Inclusion		
Women in the workforce (%): (1) Executives; (2) Employees	(1) 37.5% (2) 69.0%	
(1) Voluntary and (2) Involuntary turnover rate for hotel situated employees	(1) 84% (2) 16%	
(1) Average hourly wage and (2) Percentage of hotel facility employees earning minimum wage	(1) $12.92 (2) 8.3%	
Policies		
Equal Employment Opportunity Policy	Yes	Please refer to the company's Equal Employment Opportunity Policy here.
Gender Pay Gap Controversy	No	
Human Rights Policy	Yes	Please refer to the company's Code of Business Conduct and Ethics here.
Description of policies and programs to prevent worker harassment	Yes	Please refer to the company's training programs, policies and anonymous hotline here.
Communities		
Social Investments & Philanthropy	170,000 hotel room nights	The company supports the American Cancer Society through free and deeply discounted hotel stays. Please review program information here.
GOVERNANCE		
Board of Directors		
Board Independence	86%	Independence determined under the rules of the SEC and NASDAQ
Women on the Board	43%	Please refer to the company's Board Leadership here.
2020 Women on Boards	W	Awarded a W for Winning: 20% or more women on the board
Board Average Tenure (years)	4	
Board Average Age (years)	60	
Lead Independent Director	Yes	
Oversight of Strategy & Risk	Yes	
Oversight of ESG Program	Yes	
Accountability		
Corporate Governance Guidelines	Yes	Please refer to the company's Corporate Governance Guidelines here.
Ethics Policy	Yes	Please refer to the company's Code of Business Conduct and Ethics here.
Anti-Bribery & Corruption Policy	Yes	
Whistleblower Protection Policy	Yes	
Privacy Policy	Yes	Please refer to the company's Privacy Policy here.
Shareholder Engagement	Yes	More than 400 touchpoints with investors in 2019, including more than 150 in person meetings with the STAY management team at a dozen investor conferences, 10 cities for non-deal roadshows and hosting investors at the Company's Headquarters in Charlotte, NC

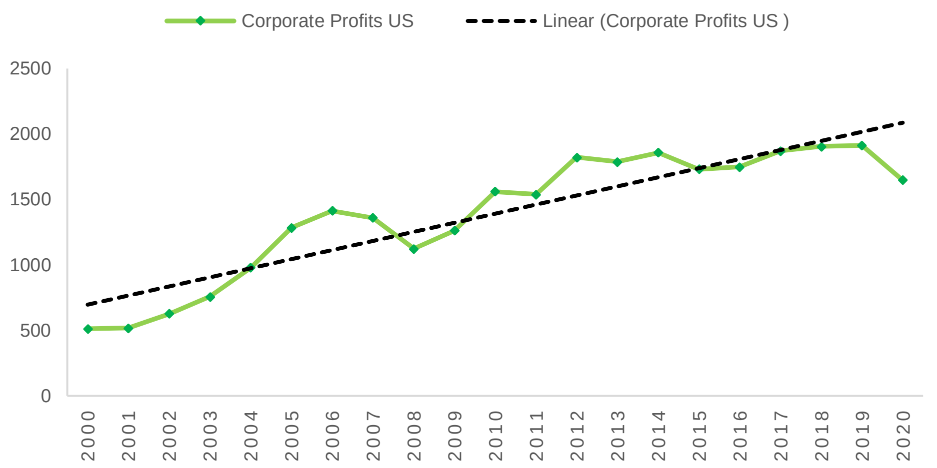
Source: Company Data

Appendix 45: Compensation Peer Group

C-Corp Peers	REIT Peers
Boyd Gaming Corporation	Apple Hospitality Trust, Inc.
Brinker International, Inc.	Ashford Hospitality Trust, Inc.
Cedar Fair, L.P.	DiamondRock Hospitality Company
Choice Hotels International, Inc.	Host Hotels & Resorts, Inc.
Churchill Downs Incorporated	LaSalle Hotel Properties
Dave & Buster's Entertainment, Inc.	MGM Growth Properties LLC
Dine Brands Global, Inc.	Park Hotels & Resorts, Inc.
Dunkin Brands Group, Inc.	RLJ Lodging Trust
Hilton Grand Vacations, Inc.	Ryman Hospitality Properties, Inc.
Hyatt Hotels Corporation	Sunstone Hotel Investors, Inc.
ILG, Inc.	Xenia Hotels & Resorts, Inc.
Marriott Vacations Worldwide Company	
Red Rock Reports, Inc.	
SeaWorld Entertainment, Inc.	
Six Flags Entertainment Corporation	
The Wendy's Company	
Vail Resorts, Inc.	
Wyndham Destinations, Inc.	

Source: Company Data

Appendix 46: U.S. Corporate Profits (Billion USD)



Source: Trading Economics

Appendix 47: Pestel Analysis

Political	Economical	Social
Changes in the regulatory measures can have a great impact on the number of hotel clients (both Business and Leisure); Changes in taxes like Country Tourism Tax and others; Licensing Practices affect new hotel openings; New regulations against overtourism (e.g., Venice); Political changes (elections); Terrorism and political uncertainty in touristic areas; Governmental restrictions regarding occupancy limits and social distancing (COVID-19).	Cyclicality of the economy (recession/expansion); GDP and the percentage of global income that is available for leisure; Exchange rates, inflation and interest rates can all affect tourism and investment in certain regions; COVID-19 economic impact.	Demographic changes like population growth and education levels. Increasing number of young travelers. Leisure interests (volunteering, sports, culture). Fear and uncertainty of travelling due to Covid-19.

Technological	Environmental	Legal
Availability of new software that helps managing reservations, staff, and other operational needs. Increasing number of digital applications and websites that make the booking process user-friendly (e.g., TripAdvisor and Booking).	Environmental and weather changes have an impact in many hotels – certain locations are only open in specific times of the year (e.g., ski and beach resorts). Huge pressure from governmental entities and environmental activists regarding ecological footprint, carbon emissions and waste.	VISA restriction rules in some countries like the USA and the UK. Legal procedures to open new hotels and resorts. Increasing laws regarding safety and wealth (employee conditions), among others. Reduced legal procedures and taxes to Airbnb hosts and similar platforms that constitute a huge annual cost to hotel owners.

Appendix 48: Peer Selection - Corporation

BICS - Consumer Discretionary / Consumer Discretionary Services / Leisure Facilities and Services / Lodging / Hotel & Motel (excl. Casino Hotel) / USA												
Bloomberg Data (17-07-2021)			SARD Variables					EV Multiples		Price Multiples	Ski Resort, Casino Hotel or Amusement Park	Compensation Peer Group
Rank	Company	Ticker	ROE	D/E	Market Cap ($M)	EPS Growth	EBIT Margin	EV/EBIT	EV/EBITDA	P/E		
1	Marriott International	MAR	-	26.4	43 977	-	1%	1087.5	137.9	4301.9		
2	Las Vegas Sands Corp.	LVS	-48%	4.1	36 533	-	-61%	-	-	-		
3	Hilton Worldwide Holdings Inc.	HLT	-		33 354	-	-14%	-	-	-		
4	MGM Resorts International	MGM	-28%	1.9	18 606	-	-47%	-	-	-		
5	Loews Corp.	L	5%	0.6	14 217	-		-	-	18.8		
6	Vail Resorts Inc.	MTN	8%	1.8	12 424	-67%	15%	57.7	28.8	96.4	x	✓
7	Wynn Resorts Ltd.	WYNN	-258%		12 109	-	-62%	-	-	-		
8	Penn National Gaming Inc.	PENN	7%	4.2	10 352	-	10%	69.6	33.8	119.4		
9	Hyatt Hotels Corp.	H	-23%	1.1	7 687	-	-52%	-	-	-		✓
10	Choice Hotels	CHH	-		6 385	-66%	16%	56.8	37.7	56.0		✓
11	Wyndham Hotels & Resorts Inc.	WH	6%	2.7	6 368	-	-3%	-	147.4	101.5		✓
12	Marriott Vacations Worldwide Corp.	VAC	-4%	1.1	6 356	-	-3%	-	102.1	-		✓
13	Boyd Gaming Corp.	BYD	4%	4.3	5 958	-	15%	31.0	17.2	125.3	x	✓
14	Travel + Leisure Co.	TNL	-		4 715	-	5%	69.6	30.8	-		
15	**Extended Stay America**	**STAY**	**-2%**	**2.4**	**3 636**	**-65%**	**20%**	**30.7**	**15.2**	**-**		
16	Hilton Grand Vacations Inc.	HGV	-6%	3.3	3 337	-	-33%	-	-	-		✓
17	St. Joe Company	JOE	9%	0.3	2 451	71%	29%	49.3	39.0	49.4		
18	Cedar Fair LP	FUN	-		2 432	-	-349%	-	-	-	x	✓

Appendix 49: Peer Selection – ESH REIT

BICS - Real Estate / REIT / Hotel REIT / USA											
Bloomberg Data (17-07-2021)			SARD Variables					EV Multiples		Price Multiples	Compensation Peer Group
Rank	Company	Ticker	ROE	D/E	Market Cap ($M)	EPS Growth	EBIT Margin	EV/EBIT	EV/EBITDA	P/E	
1	Host Hotels & Resorts Inc.	HST	-15%	1.0	11 283	-	-115%	-	-	-	✓
2	MGM Growth Properties LLC	MGP	6%	0.8	9 710	-26%	65%	18.5	12.6	26.4	✓
3	Park Hotels & Resorts Inc.	PK	-17%	1.1	4 349	-	-165%	-	-	-	✓
4	Ryman Hospitality Properties Inc.	RHP	-133%	8.6	4 319	-	-131%	-	-	-	✓
5	**Extended Stay America**	**STAY**	**-2%**	**2.4**	**3 636**	**-65%**	**20%**	**30.7**	**15.2**	**-**	
6	Apple Hospitality REIT Inc.	APLE	-7%	0.6	3 247	-	-29%	-	100.6	-	✓
7	Pebblebrook Hotel Trust	PEB	-18%	0.8	2 936	-	-172%	-	-	-	
8	Sunstone Hotel Investors Inc.	SHO	-16%	0.4	2 467	-	-236%	-	-	-	✓
9	RLJ Lodging Trust	RLJ	-19%	1.0	2 312	-	-91%	-	-	-	✓
10	Xenia Hotels & Resorts Inc.	XHR	-20%	0.9	2 023	-	-103%	-	17.3	-	✓
11	Service Properties Trust	SVC	-24%	3.0	1 932	-	-13%	-	22.9	-	
12	DiamondRock Hospitality Co.	DRH	-14%	0.7	1 907	-	-252%	-	-	-	✓
13	Summit Hotel Properties, Inc.	INN	-19%	1.1	942	-	-70%	-	403.9	-	
14	Chatham Lodging Trust	CLDT	-9%	0.9	583	-	-32%	-	67.8	-	
15	Ashford Hospitality Trust	AHT	-	-	483	-109%	-142%	-	-	-	✓

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